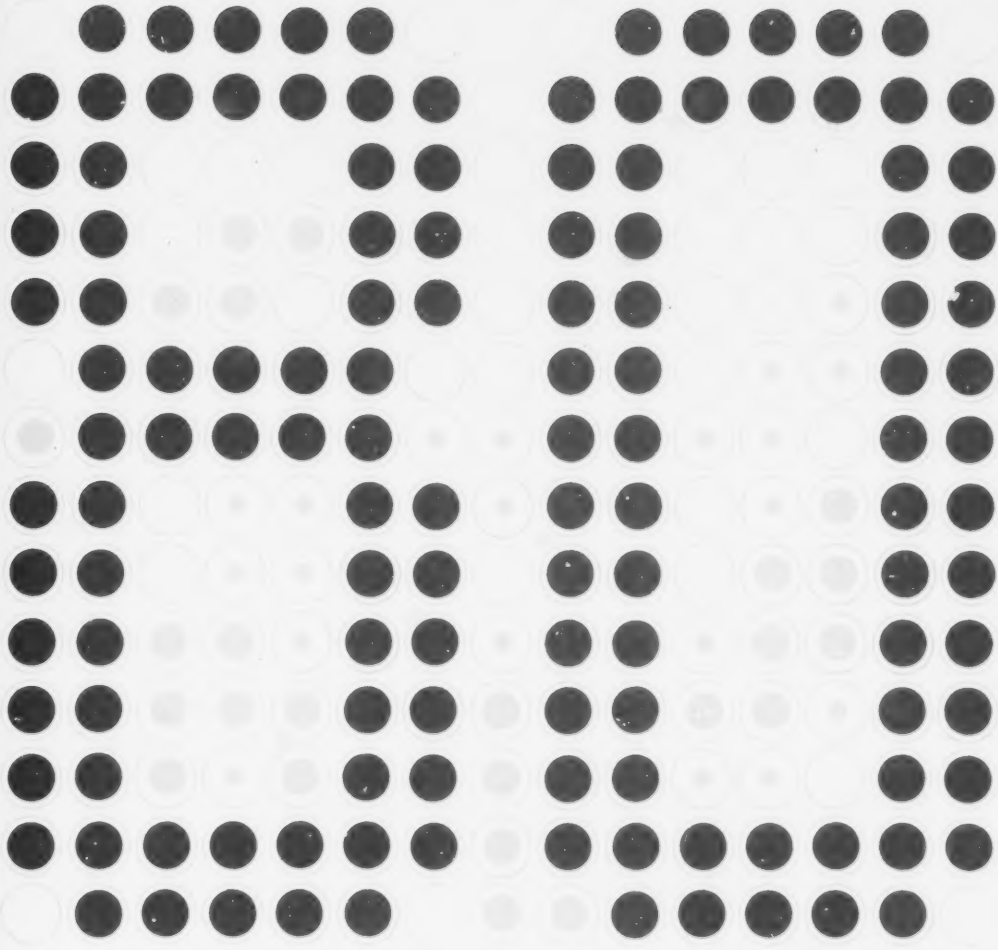

NATIONAL CONSUMER FINANCE ASSOCIATION

FINANCE FACTS YEARBOOK

S. LEES BOOTH
Director of Research

1980
FINANCE FACTS
YEARBOOK

A FACT BOOK ABOUT
CONSUMER FINANCIAL
BEHAVIOR AND THE
CONSUMER
FINANCE BUSINESS

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FOREWORD

Finance Facts Yearbook is an annual publication of the National Consumer Finance Association which also publishes the monthly "Finance Facts." These and other publications are offered at a nominal charge as a public service by the National Consumer Finance Association, whose members number about 800 companies engaged in financing consumers through over 15,000 offices in the United States and Puerto Rico. This financing is done by finance companies or industrial banking companies, through direct cash installment loans to families or individuals, or through the purchase of installment sales paper.

NCFA's membership is comprised of organizations commonly referred to as consumer finance (or small loan) companies, sales finance companies, industrial banks and industrial loan companies. Some members have insurance and retail subsidiaries, some offer commercial financing, some have manufacturing subsidiaries, some operate in Canada and some in countries outside of North America. Several members of NCFA are subsidiaries of highly diversified parent corporations, while others are subsidiaries of manufacturing companies, others of insurance companies, and others of bank holding companies.

The first six chapters of the yearbook provide a convenient reference source of current information about significant aspects of the consumer sector. The human factors are briefly outlined: the size and make-up of the population as the underlying determinant of the types of goods needed; and the size and make-up of the adult population as the potential labor force to supply those goods and services. A review of consumer income, expenditures, saving and investment is followed by a description of consumer credit and the institutions involved.

Chapter 7, "The Consumer Finance Industry," provides a description of the business of finance companies and industrial banks, their markets, their sources of funds and other distinguishing characteristics of these financial institutions. Included is a brief account of the legal and regulatory framework within which these companies operate as well as the latest statistical information relative to finance company operations and customers.

The section "1980 and Beyond" offers some thoughts on economic projections given the inflationary spiral, the unstable financial markets, and the legislative proposals for action in 1980.

Finally, the "List of References" may be helpful to those who wish to obtain more information on the consumer finance industry.

S. Lees Booth, Ph.D.
Senior Vice President
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Finance Association

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CHAPTER 1
THE POPULATION

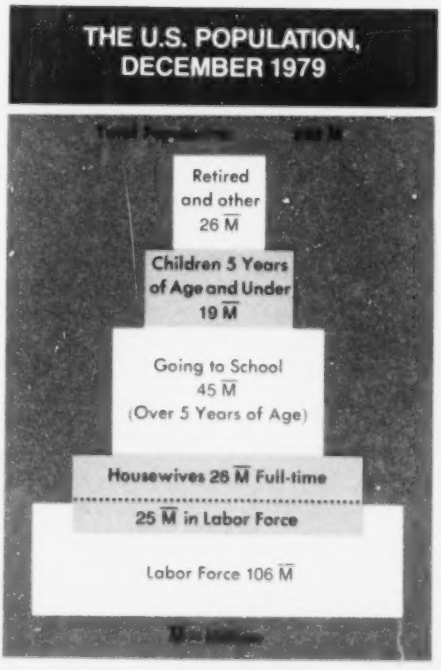
The size of the population is basic both to the extent of consumer wants and the potential for providing goods and services to satisfy those wants. Demographic characteristics and geographic location of the population are important factors in the economic processes of saving, investment, spending and the types of goods produced. The proportion of the population capable of producing goods and services—the potential labor force—places a limit on the availability and variety of goods and services made available by an economy.

Economic progress has been possible in the U.S. because of a stable political system. It has been a reality as the result of increasingly more enterprising business leadership, a more skilled labor force, and improved technology. However, compliance with the increased legislation and regulation of recent years has absorbed an increasing proportion of productive resources in the U.S. These economic costs need to be carefully weighed against the social benefits of many existing regulations and all new and untried legislation that is proposed.

To provide the goods and services necessary to satisfy consumer wants in the U.S. well over half of the population play roles as producers, either in the labor force or in the home. To secure the basis for a future viable economy, one-fifth of the U.S. population are in the process of education and training for the world of work.

Of the 222 million population in December 1979, about 106 million (48%) were in the labor force. In addition to the 25 million housewives who are included in the labor force, there are another 26 million housewives, not gainfully employed, or 12% of the population, who with the labor force make up 60% of the population. About 45 million, or 20%, of the population are going to school to prepare for future production activity. Many of these are also working, at least part-time. Some 45 million (20% of the population) are neither working, looking for work, nor preparing for work—most either youngsters or retirees (Chart 1).

CHART 1


THE U.S. POPULATION, DECEMBER 1979
Retired and other 26 M
Children 5 Years of Age and Under 19 M
Going to School 45 M (Over 5 Years of Age)
Housewives 26 M Full-time
25 M in Labor Force
Labor Force 106 M

Demographic characteristics of the population play a major role in determining current patterns of consumption, saving, and production. Projections of future population and other socio-economic aggregates may permit advance planning for more efficient use of resources by individuals, business and government.

Population Growth and Family Formation

The population of the United States including armed forces overseas was estimated in mid-1979 to be 220.4 million. By 1985, it is expected to increase by 5.7% and stand at approximately 232.9 million. This projection suggests an annual growth rate of approximately 0.9% (Table 1).

Average annual rate of population growth has fallen substantially from 1.71% in the 1950's to 1.26% in the 1960's to 0.82% in the 1970's. Growth rate changes reflect for the most part changes in the birth rate and to some extent changes in immigation policy.

As the birth rate declined after 1957, the growth rate of the population fell to a low of 1% or less starting in 1968. For 1977 and 1978, the net growth rate approximated 0.8%, approximately 0.65% from natural increase and 0.15% from immigration. Preliminary data for 1979 suggest a natural increase of 0.7% and an increase of 0.15% from immigration. The number of births in 1979 by preliminary estimate was 3.5 million, up from 3.33 million in each of the two previous years. This is in contrast to an average of 4.16 million in each year during the first half of the 1960's.

The number of marriages increased steadily from the low of 1.45 million in 1958, until it reached 2.28 million in 1973. However, there was a decline to 2.13 million by 1976 with a rise to about 2.24 million in 1978 and 2.32 million in 1979. Rates per 1,000 population increased slightly in 1979 with increased population at marriageable ages. The divorce rate which increased rapidly through 1971 continues on the increase and stood at 5.2 per thousand population in 1978 and about 5.3 in 1979 (Chart 2).

The death rate has remained fairly stable though declining slowly to about 8.7 per thousand population in 1979.

Immigration contributed an increased proportion of U.S. population growth after 1965 when the Immigration and Na-

TABLE 1

POPULATION AND NUMBER OF HOUSEHOLDS
JULY 1 OF SELECTED YEARS, 1970-1990*

(In millions)

					Projected**		
	1970	1977	1978	1979	1980	1985	1990
Population	204.9	216.8	218.5	220.4	222.2	232.9	243.5
Households	63.4	74.1	76.0	77.3	79.9	88.6	96.7
Husband-wife	44.7	47.5	47.4	47.6	49.0	52.1	54.7
Other	18.7	26.6	28.7	29.7	30.9	36.5	42.0
Male Head	5.3	8.4	9.4	9.7	10.3	12.6	14.9
Female Head	13.4	18.2	19.3	20.0	20.6	23.9	27.1
Living Alone***	(10.9)	(15.5)	(16.7)	(17.2)	na	na	na

Source: Bureau of the Census.

Note: Parts may not add to totals due to rounding.

**Population and projected households as of July 1 of each year; estimates of households for years 1970-1979 as of March.*

***Population growth conforms to the Census Bureau Series II projection which is the middle estimate of three projections. Projections of number of households are the Census Bureau Series B based upon trends in marital status and householder proportions over the 1964-78 period. A household consists of a person or group of persons who occupy a house, an apartment, or other group of rooms, or a room that constitutes a housing unit.*

****Of the "other" households, those that constitute one-person households.*

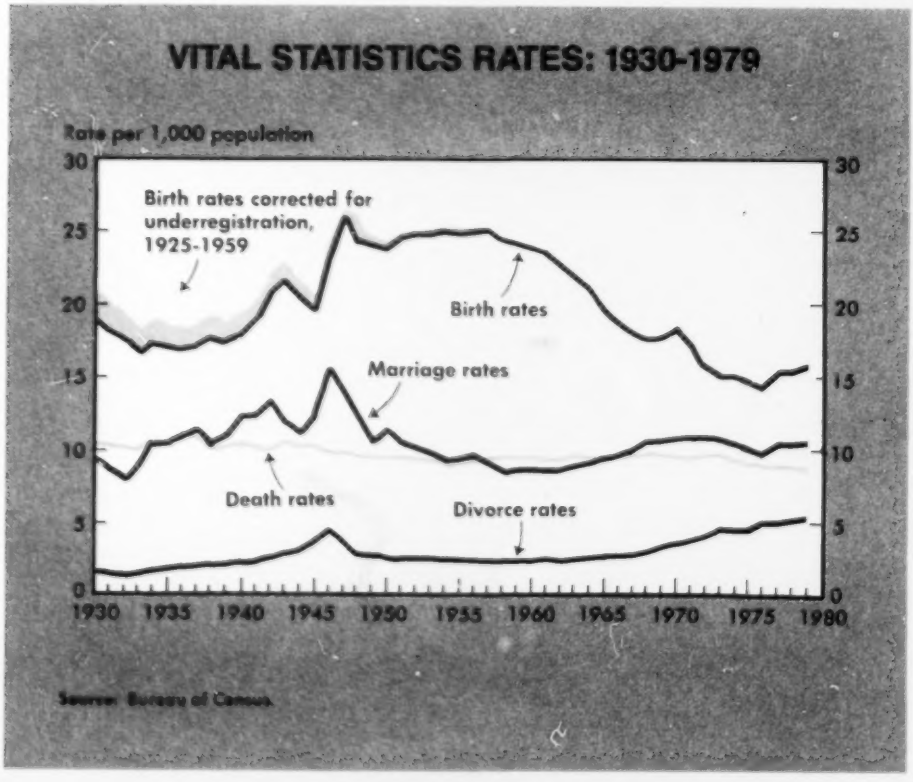
tionality Act was amended to raise the overall quota, eliminate the national origins feature, and add a special quota for Latin America. The addition to population from this factor started dropping off in 1970 and except for 1975, when the largest group of Vietnamese refugees entered the United States, has added less than 0.2% per year. However, because of the uncertainty about the number of undocumented or illegal aliens in the United States, this group is not included in the estimate of net civilian immigration.

Households

Trends in family formation and in the number of households have special economic significance because the primary unit of consumption for many goods and services is not the individual but the family or the household. This is especially true for housing, and consumer durables such as automobiles, home furnishings and appliances. If, as is expected, present trends in family and household formation continue and economic activity continues to expand, subject only to short pauses during the next several years, it may be anticipated that the number of households will increase from 77.3 million in 1979 to about 88.6 million in 1985.

Households increased by 13.9 million between 1970 and 1979. About 45% of this increase consisted of persons living alone and 21% of husband-wife households. The remaining 34% of the increase consisted of households of two or more persons (other than husband-wife households). The large increase in other than husband-wife households reflects the increased divorce rate as well as the large number of younger persons who leave their parental home to set up nonfamily households, and the increasing number of older persons who continue to maintain their own houses or apartments while living apart from any relatives.

CHART 2



The average population per household in March 1979 was 2.78 persons, having dropped each year since 1964 when the average size was 3.33 persons. The change resulted from the falling birth rate through most of the 1960's and in the early 1970's which is reflected in a decrease in average number of children under 18 years of age per household from 1.23 in 1964 to 0.81 in 1979, and the increasing proportion of adults who are living alone. Average population per family dropped from 3.70 in 1964 to 3.31 in 1979.

Age Groups

Changes in the number of persons in various age groups of the population impose changing requirements on the economy, especially the demand for different types of consumer goods, the mobility of the population, the need for an expanding job market, and the need for educational facilities.

Table 2 shows the number in each age group and the distribution by sex as estimated for selected years from 1970 to 1978, and projected by the Census Bureau for 1979, 1980, 1985 and 1990. While the total number in each group is of interest for present-day marketers and others serving the consumer, the rate at which the size of these groups is changing is of greater concern in planning by business and government for the future. The rates of change in the numbers in the various age groups

TABLE 2

POPULATION INCLUDING ARMED FORCES ABROAD
BY AGE GROUPS AND SEX
JULY 1 OF SELECTED YEARS, 1970-1990

(In millions)

					Projected*		
	1970	1977	1978	1979	1980	1985	1990
Years of Age							
Both Sexes							
Under 5	17.2	15.2	15.4	15.6	16.0	18.8	19.4
5 to 15	44.8	40.6	39.6	38.6	37.8	36.5	39.0
16 to 24	32.5	37.1	37.4	37.6	37.6	34.9	31.5
25 to 34	25.3	33.2	33.9	35.0	36.2	39.9	41.1
35 to 54	46.5	46.9	47.6	48.0	48.4	53.8	61.9
55 to 64	18.6	20.4	20.7	20.9	21.2	21.7	20.8
65 and over	20.1	23.4	24.1	24.4	24.9	27.3	29.8
Total	205.0	216.8	218.5	220.2	222.2	232.9	243.5
By sex							
Under 16							
Male	31.6	28.5	28.1	27.7	27.5	28.3	29.9
Female	30.4	27.3	26.9	26.5	26.3	27.0	28.5
16 to 24							
Male	16.4	18.7	18.9	19.0	19.0	17.6	15.9
Female	16.1	18.4	18.5	18.6	18.6	17.3	15.6
25 to 54							
Male	35.1	39.3	40.0	40.8	41.6	46.1	50.7
Female	36.7	40.8	41.5	42.2	43.0	47.6	52.3
55 to 64							
Male	8.8	9.7	9.8	9.9	10.0	10.3	10.0
Female	9.8	10.7	10.9	11.0	11.2	11 4	10.8
65 and over							
Male	8.4	9.5	9.7	9.9	10.1	11.0	12.0
Female	11.7	13.9	14.2	14.5	14.8	16.3	17.8
Total							
Male	100.3	105.7	106.5	107.3	108.3	113.4	118.5
Female	104.7	111.1	112.0	112.9	113.9	119.5	125.0

Source: Bureau of the Census.
Note: Parts may not add to totals due to rounding.
**From Census Bureau Series II, see Table 1 for explanation.*

from 1970 to 1980 and projected for 1980 to 1990 are shown in Chart 3.

The at-home young people—those under five years of age—number 7.0% less in 1980 than in 1970 but are expected to increase by 21.3% between 1980 and 1990. This projection is largely based on a rise in the early 1980's in the number of young women in the prime childbearing ages of 20 to 29 years, and reflects a slowly rising birth rate. Moreover, the marriage rate which remained nearly constant during the fifties and early sixties had increased from 1.5 million marriages in 1960 to 2.1 million in 1969, and stood between 2.1 million and 2.3 million each year from 1969 through 1979.

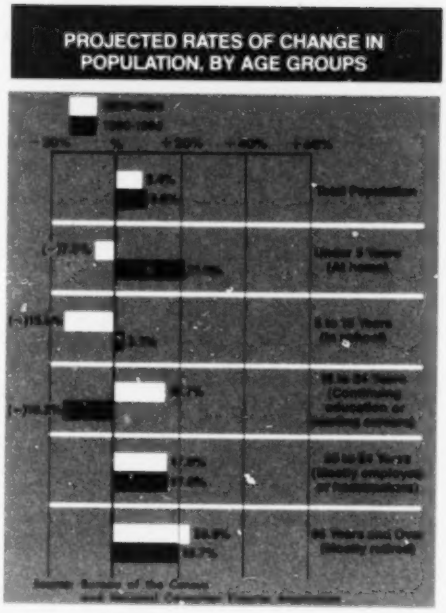
The number of in-school young people—those 5 to 15 years of age—is 15.6% less in 1980 than in 1970 but will increase by 3.2% between 1980 and 1990. This should increase somewhat the need for educational facilities at the grammar and secondary school levels.

The number continuing their education or starting careers—those ages 16 to 24 years—is 15.7% greater in 1980 than in 1970; there should be about 16.2% less in this group in 1990 than in 1980. Though there are some indications that the proportion of young people continuing their education through college is decreasing, there is a growing demand for the more specialized and technically oriented training beyond the high school level.

The large segment of the population, that is, those 25 to 64 years of age most of whom are in the labor force or homemakers, is 17% greater in number in 1980 than in 1970, and will increase by 17% between 1980 and 1990.

The older population, those 65 and over, most of whom are retired, number 23.9% more in 1980 than in 1970, and will increase by 19.7% between 1980 and 1990.

CHART 3



The Metropolitan Population

Net outmigration from metropolitan areas has been a characteristic pattern of the 1970's, first observed in March 1973. Of the 204.8 million population 3 years of age and over in March 1978, about two-thirds (136.9 million) lived in metropolitan areas. Between 1975 and 1978 the number of persons moving to metropolitan areas from elsewhere in the United States was smaller than the number moving out of metropolitan areas. In the 1975-78 period, 5.3 million persons 3 years old and over moved from metropolitan areas to nonmetropolitan territory, and only 4.2 million persons 3 years old and over moved in the opposite direction. The net outmigration from metropolitan areas is an important change from the 1960's, when there was a net movement to metropolitan territory.

For the Nation as a whole and for each of the four major regions, central cities of metropolitan areas had net outmigration from 1975 to 1978. In the South and West, however, the net outmigration from central cities was partially offset by net inmigration to suburbs.

Population Mobility

Movers typically have different characteristics from persons who do not move. Highest mobility rates are usually found

for persons in their twenties. Many are establishing their own households, starting new jobs, finishing school or service in the Armed Forces, or have been recently married. In their later twenties, many are buying a house or moving to larger living quarters because of the addition of children to their family, or are moving to housing more convenient to schools.

In the 3-year period between March 1975 and March 1978, 63.4% of the persons 25 to 29 years old (in 1978) and 59.0% of those 20 to 24 years old had changed residence as compared to only 34.2% of the total population 3 years old and over at the end of the period.

Despite the large numbers of retired persons moving to the Sunbelt and other resort areas, they are large in numbers only in terms of their impact on those areas. Only a small percentage of the persons over 55 made changes of residence in the 3-year period. Fewer than 20% of the persons 55 years old and over in 1978 had moved between 1975 and 1978.

Persons in their forties and their teenage children have mobility rates intermediate between the extremes of the young adults and the older citizens. These adults in their middle years are more likely to be established in their careers, to be settled in a neighborhood and a house that they own, and are less inclined to move because they have more invested emotionally as well as monetarily in their present location.

Educational attainment is a good predictor of residential mobility. Between March 1975 and March 1978, only 22.5% of those persons with 8 or less years of school completed had moved to a different house in the United States, while 33.4% of those with 1 to 4 years of high school and 41.5% of those with at least some college had moved. Movers with some college education are more likely to move long distances than movers with fewer years of school completed.

Population Growth by Regions

The total U.S. population growth of 7.3% between 1970 and 1978, and growth of various regions of the country are shown in Chart 4. Greater than average

CHART 4

CHANGES IN RESIDENT POPULATION BY REGIONS, 1970-1978 TOTAL U.S. 7.3%

Source: Bureau of the Census

U.S. gain in the resident population since 1970 occurred in the Mountain states (24.1%), West South Central states (14.1%), South Atlantic states (12.7%), Pacific states (12.3%), and East South Central states (9.3%). Less than the average U.S. gain occurred in the New England states (3.5%), West North Central states (4.2%), and East North Central states (2.4%). Middle Atlantic states showed a decline of 1.0%. Part of the differential rates of population growth is explained by differing birth rates, but most of the change resulted from changing economic developments and the highly mobile character of the population.

Historical westward trend in the movement of the population of the United States has continued since 1960, but at a somewhat lower rate than in the past. The regions that previously experienced net outmigration were predominantly rural and agricultural, whereas the regions with net inmigration were highly industrialized and urbanized. Traditionally agrarian South, which had long been a region of outmigration, has been experiencing a net inmigration since the last half of the 1950's. Simultaneously, several of the heavily industrialized and urbanized North Central states were registering net outmigration.

CHAPTER 2
IN SCHOOL AND ON THE JOB

The potential of an economic system to provide goods and services to satisfy human wants is determined by the size and skills of the labor force and the managerial capabilities.

Labor force participation and education are necessarily an interrelated process in the modern world. The capability and quality of the present day work force is a product of past education and training. The capability and quality of the future work force are being determined by the education and training of today. The productivity of the labor force will depend on continuing education and training, and also on government policies and practices.

The opportunities for employment are determined by general economic conditions and also by the relative age level and experience of the labor force. Moreover, economic and military demands determine in part the numbers of young adults who are in school, in the civilian labor force, and in the armed forces.

Potential Labor Force

The total number of persons that may be available for work, which may be called the potential labor force and defined as the noninstitutional population 16 years of age and over, averaged 163.6 million in 1979 having increased by 1.6% from 1978 (Table 3). The relative sizes of the two broad components of the potential labor force—those in the labor force and those not in the labor force—changed quite differently from 1978 to 1979. The labor force of 105.0 million in 1979 had increased at a rate of 2.4% over the year before. Those 16 years of age and over who were not in the labor force—those keeping house, going to school, unable to work and those retired—numbered 58.6 million in 1979, little changed from 58.5 million in 1978.

Working and in School

The proportion of the young men both going to school and working in 1979 was less than in 1970 (Chart 5). The percentage of the 16-21 year old male population that were both students and in the labor force was 15% in 1970 and 14% in 1979, but for females in this age group the percentage rose from 11% to 13%. Moreover, only 17% of females 16 to 21 years of age were neither in the labor force nor enrolled in school in 1979, down from 23% in 1970.

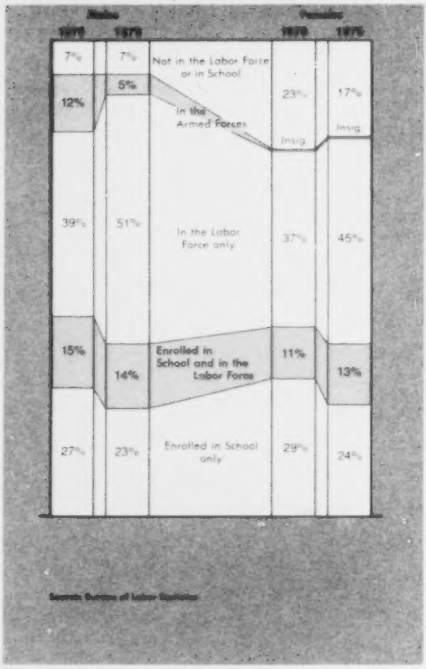
Future economic activity will necessarily take account of the educational and training activities of the present. One reflection of the shifts in attitudes toward education is a comparison of some characteristics of those attending school in 1978 with those of earlier years.

Between 1968 and 1978, the number of women under 35 years of age enrolled in college increased by 76%, while the corresponding number of men increased by only 24%. Women made up 39% of all college students under 35 in 1968 but comprised 48% by 1978.

Between 1972 and 1978, the number of persons 35 years old and over enrolled in college increased by 66%. (1972 is the

CHART 5

YOUNG PEOPLE 16-21 YEARS OF AGE IN SCHOOL AND IN THE LABOR FORCE 1970 AND 1979



earliest year for which data for persons 35 and over are available.) The number of women over 35 enrolled in college doubled while the number of enrolled males increased by about a quarter. In 1978, 850,000 women and 460,000 men 35 years old and over were enrolled in college.

The demographic character of undergraduate enrollment shifted between 1970 and 1978. By 1978, 34% of the undergraduates were 22 years old and over as compared to 26% in 1970. A greater proportion of undergraduates were attending college part time in 1978 than in 1970 (24% as opposed to 17%).

School Enrollment

Approximately 58.6 million persons 3 to 34 years old were enrolled in school or college in the United States in October 1978, the latest date for which statistics are available (Table 4). This number enrolled in school either part-time or full-time, which comprised 51.2% of the population

TABLE 3

THE LABOR FORCE AND THOSE NOT IN THE LABOR FORCE
SELECTED YEARS, 1970-1990*

(In millions of persons 16 years of age and over)

					Projected		
	1970	1977	1978	1979	1980	1985	1990
Population 16 years of age and over							
Total	143.0	161.0	163.5	166.0	168	178	185
Noninstitutional**	140.2	158.6	161.1	163.6	165	175	182
Labor force including armed forces	85.9	99.5	102.5	105.0	104	114	121
Armed forces	3.2	2.1	2.1	2.1	2	2	2
Civilian labor force	82.7	97.4	100.4	102.9	102	112	119
Employed	78.6	90.5	94.4	96.9	98	107	114
Unemployed	4.1	6.9	6.0	6.0	4	5	5
Not in the labor force	54.3	59.0	58.5	58.6	61	61	61

Source: Bureau of the Census and Bureau of Labor Statistics.

Note: Parts may not add to totals due to rounding.

**Average of monthly totals except for population which is as of July 1 of each year. See Footnotes to Tables 1 and 2 for basis for total population estimates and projections. Labor force projections are NCFA estimates based on latest base growth projections by the Bureau of Labor Statistics.*

***Does not include those in mental, penal or welfare in titutions.*

3 to 34 years of age, represents a decrease of 2.3% from the 60.0 million enrolled in October 1977.

School enrollment rates continued to rank high for the compulsory attendance ages. Over 99% of those age 5 to 13 were enrolled in school in 1978. School enrollment rates for children 3 to 4 years old more than doubled over the past 10 years. In 1978, 15.7% of the children 3 to 4 years old were enrolled in nursery school or kindergarten; in 1978, 34.2% of those in this age group were enrolled in school. The number of college students was 6.8 million in 1968 but in 1978 there were 9.8 million college students, an increase of 44%. However, the number of college students in 1978 was less than either 1977 or 1976.

Elementary school enrollment peaked in 1970 at 34.0 million and had dropped by 16.1% to 28.5 million in 1978. High school enrollment in 1978 was slightly less than in 1977 and is likely to decrease unless there is a significant lowering of the dropout rate which seems unlikely. Thus, it may be expected that college enrollments will continue to decline in the 1980's.

Women in College

From 1970 to 1978 the majority of the increase in college enrollment was due to the growth in women's college attendance. Women increased their enrollment by 56%, whereas men increased theirs by about 16%. Women constituted 48% of those enrolled in college in 1978, up from 40% at the beginning of the 1970's. These developments coincide with other social and economic changes that have occurred recently among women such as marrying later, having fewer children, increased participation in the labor force, and continuing to work after children are born. In recent years, more women have been remaining in the labor force and making economic use of their education.

The large increase in female enrollment was partially accounted for by the substantial rise in the number of older women attending college. The number of women 25 to 34 years of age in college nearly tripled from 1970 to 1978, increasing from 409,000 to 1,173,000. Attendance at college by males in this age group by contrast increased only from 940,000 to 1,396,000 (48%).

TABLE 4

ESTIMATED SCHOOL ENROLLMENT, SELECTED YEARS, 1970-1978*

(In thousands)

	1970	1975	1976	1977	1978
By Grade					
Nursery school	1,096	1,748	1,526	1,618	1,824
Kindergarten	3,183	3,393	3,490	3,191	2,989
Elementary school	33,950	30,446	29,774	29,234	28,490
High school (grades 9-12)	14,715	15,685	15,742	15,753	15,475
College or professional school	7,413	9,697	9,950	10,217	9,838
Total	60,357	60,969	60,482	60,013	58,616
By Selected Age Groups	(Percent of population enrolled)				
18 and 19 years	47.7%	46.9%	46.2%	46.2%	45.4%
20 and 21 years	31.9%	31.2%	32.0%	31.8%	29.5%
22 to 24 years	14.9%	16.2%	17.1%	16.5%	16.3%
Total 3 to 34 years	56.4%	53.7%	53.1%	52.5%	51.2%

Source: Bureau of the Census.

Note: Parts may not add to totals due to rounding.

**Estimates are for the population 3 to 34 years old and for October of each year.*

Employment

The total labor force averaged 105.0 million in 1979, up 2.5 million from 1978. With no reduction in the Armed Forces, the civilian labor force also rose by 2.5 million. Average civilian employment for the year also increased by 2.5 million to 96.9 million as the participation rate increased from 63.7% in 1978 to 64.2% in 1979 and unemployment remained little changed.

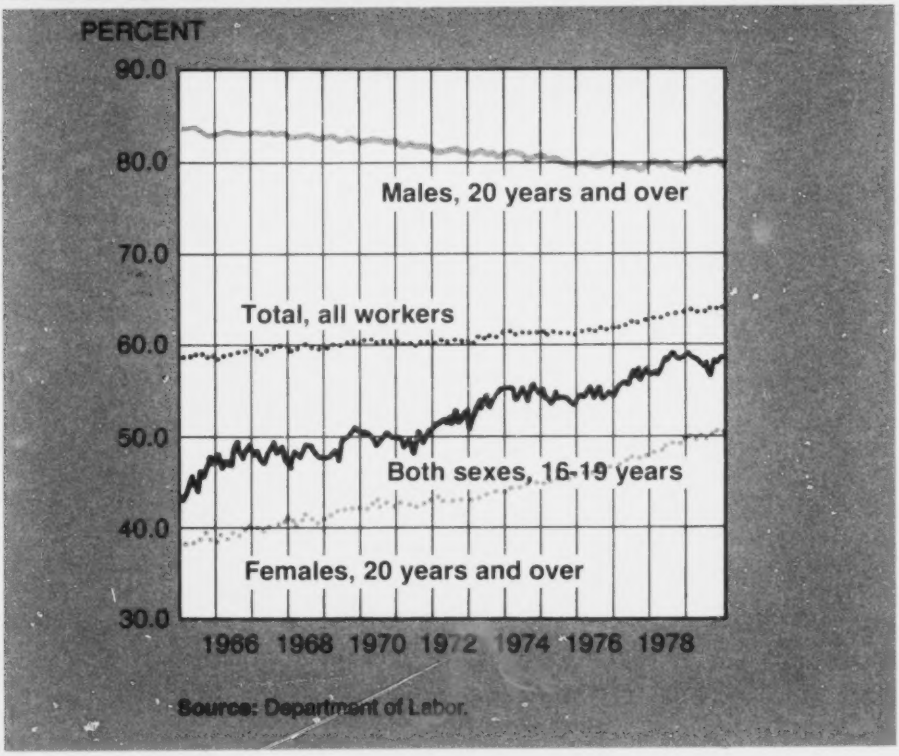
The phenomenon of substantial employment growth, while unemployment drops very little, is in part explained by the intermittent participation by some in the labor force. Persons in this group—including many homemakers, students, retired and disabled persons, and persons "doing their thing"—are reflected only when they are actively looking for jobs.

Chart 6 suggests that those in the 16 to 19 year age group are the least likely to be consistently in the labor force. The chart also suggests that there is a growing fluctuation in the participation rate of males 20 years of age and over, as well as a long term declining rate (from 85% in 1965 to about 80% in 1979). By contrast, participation in the labor force by women 20 years of age and over has been increasing at a generally steady rate.

CHART 6

CIVILIAN LABOR FORCE PARTICIPATION RATES BY SEX AND AGE, 1965-1979

(Seasonally adjusted)



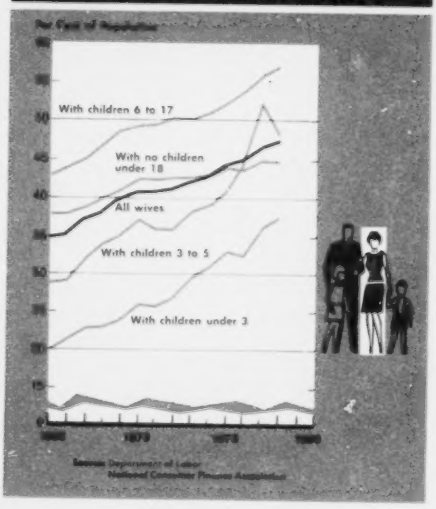
Wives in the Labor Force

Close to one-half (47.6%) of all married women were in the labor force in 1978 (Chart 7). Participation rate for wives, with or without children under 18 years of age, increases with number of years of school completed by the wife, and with husband's income to $20,000 (in 1978) for those with children and to $15,000 for those without children under 18 years of age.

Married women having one or more children under 18 were more likely to be members of the labor force (50.2%) than married women who had no children (44.7%). Highest participation rate (81.2%) was among married women age 25 to 34 years who did not have children. Among wives with no children and not high school graduates, 26.8% were working or job hunting, and of those who had completed 4 years of college or more, 65.3%.

CHART 7

LABOR FORCE PARTICIPATION RATES OF MARRIED WOMEN BY PRESENCE AND AGE OF CHILDREN MARCH 1965 TO MARCH 1978



Industry Employment

Nonfarm payroll employment continued to gain in 1979. Employment in the service-producing sector, continued its long-term growth pattern, little affected by cyclical downturns. In State and local government there was an increase to about the level that prevailed at mid-1978, while Federal employment peaked at mid-year and then leveled off (Chart 8).

Employment in transportation and public utilities throughout 1979 were well above 1978 and the previous peak year of 1974. Contract construction employment by mid-1978 had about recovered to the level of mid-1974 and continued upward throughout 1979.

CHART 8

NONAGRICULTURAL PAYROLL EMPLOYMENT BY INDUSTRY 1965-1979

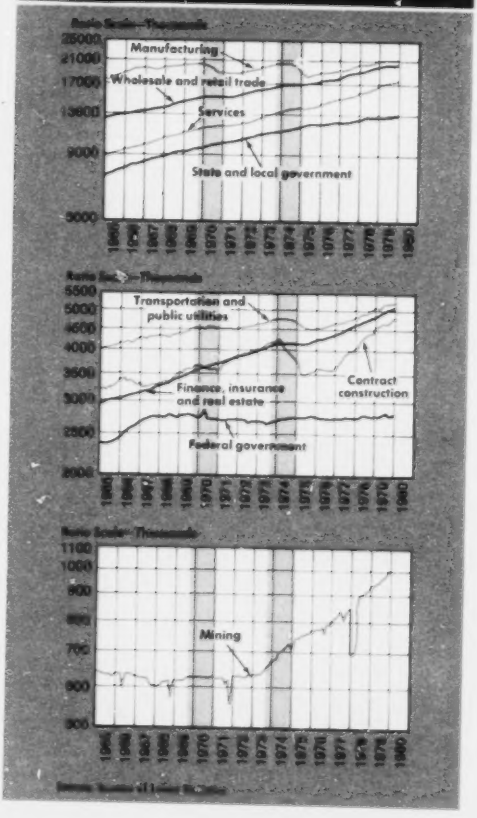


TABLE 5

EMPLOYED PERSONS BY OCCUPATION GROUPS, SELECTED YEARS, 1970-1979

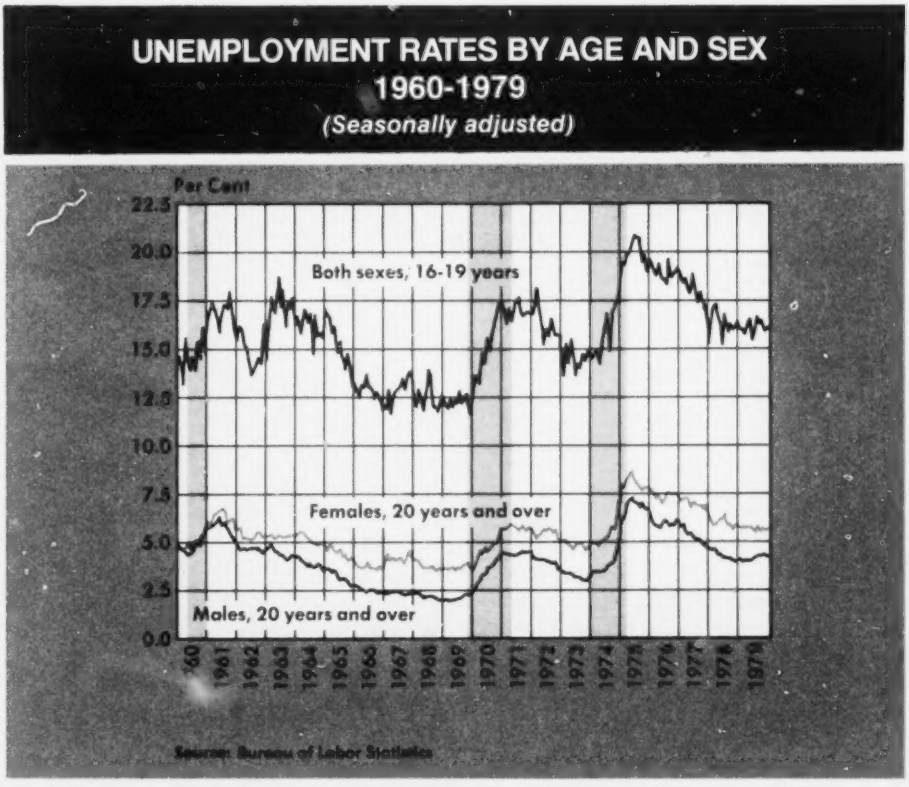
(In millions)

	1970	1976	1977	1978	1979
White-collar workers	38.0	43.7	45.2	47.2	49.3
Professional and technical	11.1	13.3	13.7	14.2	15.0
Managers and administrators	8.3	9.3	9.7	10.1	10.5
Sales workers	4.9	5.5	5.7	6.0	6.2
Clerical workers	13.7	15.6	16.1	16.9	17.6
Blue-collar workers	27.8	29.0	30.2	31.5	32.1
Craft and kindred workers	10.2	11.3	11.9	12.4	12.9
Operatives	13.9	13.4	13.8	14.4	14.5
Nonfarm laborers	3.7	4.3	4.5	4.7	4.7
Service workers	9.7	12.0	12.4	12.8	12.8
Private household workers	1.6	1.1	1.2	1.2	1.1
Other	8.2	10.9	11.2	11.7	11.7
Farm workers	3.1	2.8	2.8	2.8	2.7
Total employed	78.6	87.5	90.5	94.4	96.9

Source: Bureau of Labor Statistics.

Note: Parts may not add to totals due to rounding.

CHART 9



Jobs in the goods-producing sector increased in 1978 following the sharp decline during 1975, but manufacturing employment at year-end 1979 was still little above that of year-end 1978.

Occupations

The number of white-collar workers averaged 49.3 million in 1979 up from 47.2 million in 1978 with all types showing increases (Table 5).

Blue-collar employment at 32.1 million in 1979 was 0.6 million above 1978, while the employment of service workers showed no increase and the number of farm jobs dropped off after having remained the same in each of the three previous years.

Unemployment

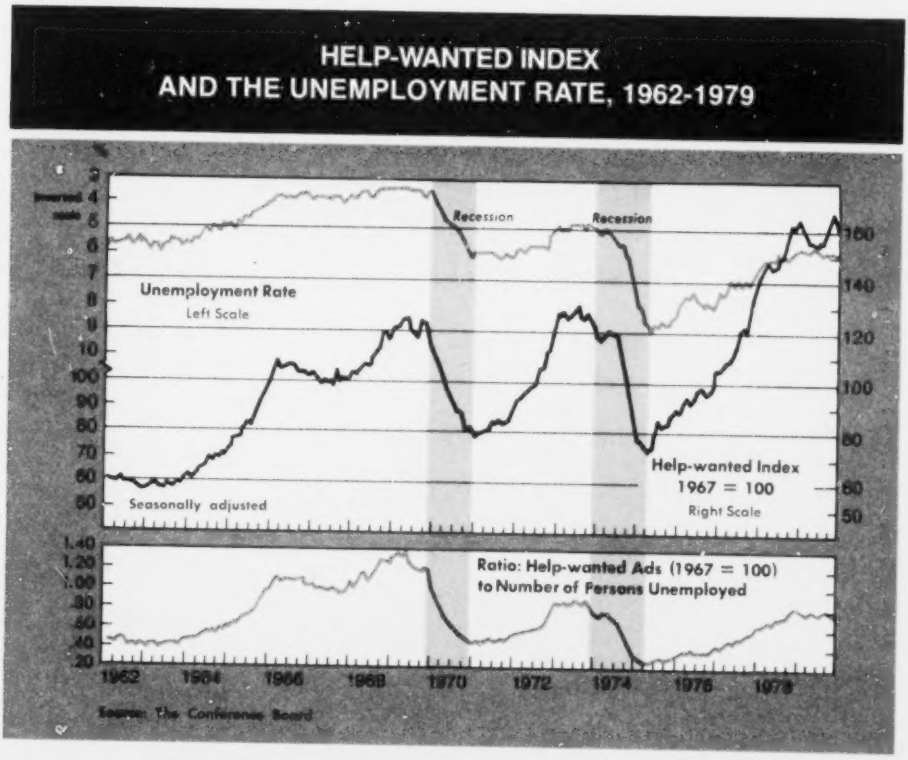
The unemployment rate averaged 5.8% in 1979 down from 6.0% in 1978. The rate for teenagers, however, approximated 16.1% in contrast to 4.1% for adult males, and 5.7% for adult females (Chart 9).

Manpower Shortages

The shortage of professional and technically trained personnel of earlier years which was evident before the 1974 recession may be starting to reappear. One indicator of manpower requirements is the Help-Wanted Index of The Conference Board (Chart 10). This index reached a peak of over 120 in 1969 and 1973 (Index 1967=100), was at a low of 72 in early 1975, reached another high point of 161 in November 1978, and was at 158 in November 1979.

Even with the high level of demand for labor expected over the next several years, the new entrant faces stiff competition. Young workers must prepare themselves for a rapidly changing and more complex world of work. They will need more and better education and more training with better guidance and counseling as they prepare to face keener competition for better jobs.

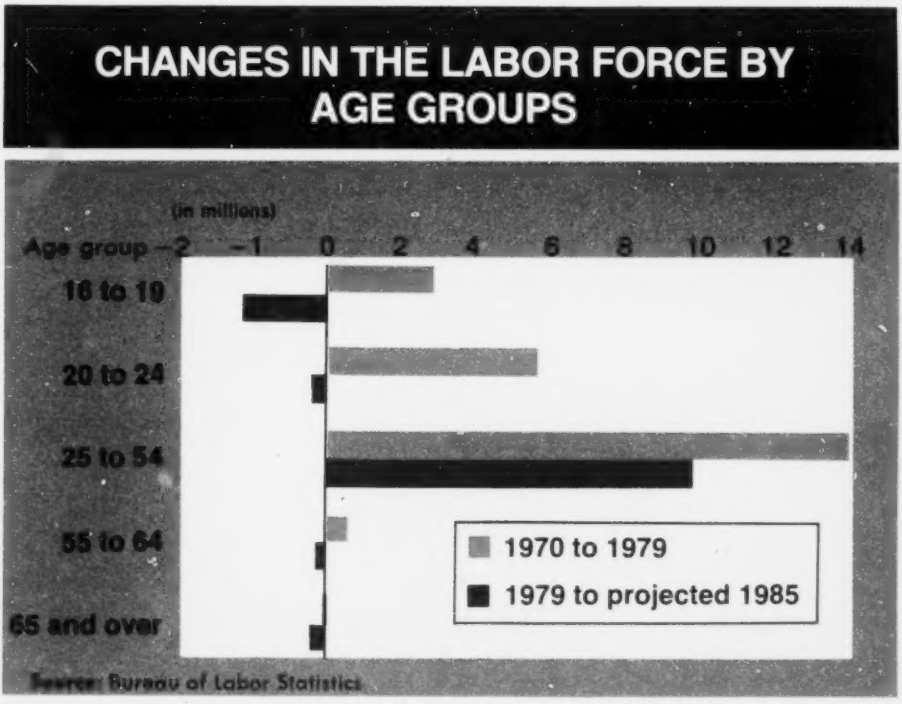
CHART 10



The Labor Force in the Future

The expansion of 7.9 million in the labor force to 113 million between 1979 and 1985 will produce quite a different age profile from that which has developed during the 1970's (Chart 11). The number of young 16-19 year olds in the labor force in 1985 will be 1.2 million less than in 1979 and there will be approximately 0.3 million less aged 20 to 24, but 9.9 million more 25 to 54, 0.2 million less 55 to 64, and 0.3 million less 65 years of age and over. In terms of occupational groups, the faster growing employment opportunities will be for white-collar workers, especially professional and technical.

CHART 11



CHAPTER 3
CONSUMERS AND THEIR INCOME

The success of a modern economic system depends not only on the level of total output at any one time but also on investment and governmental action which will provide the base for continued production in the future. A major element that is essential to a successful economic system is a flow-of-income process which recognizes contributions to production by labor, capital and government. In a modern society, the satisfaction of basic human needs regardless of an individual's ability to contribute to production is also a necessary element. The shares of income received by individuals for labor performed, capital invested, and as transfer payments (for which no service is currently rendered) form the components of personal income.

Personal Income and Its Sources

Personal income totaled $1,923.7 billion in 1979, up from $1,717.4 billion for a gain of 12.0% from 1978 (Table 6). Personal contributions for social insurance at $80.7 billion were up 15.9%.

Among the principal components of personal income the greatest percentage

TABLE 6

SOURCES OF PERSONAL INCOME, SELECTED YEARS, 1970-1979

(In billions of dollars)

Year	Wages, Salaries and Related Income*	+	Proprietors' Income	+	Income from Rent, Interest and Dividends	+	Income from Transfer Payments**	−	Personal Contributions for Social Insurance	=	Personal Income
1970	578.5		65.1		105.8		79.9		28.0		801.3
1975	871.0		87.0		169.8		178.2		50.5		1,255.5
1976	967.4		89.3		186.6		193.8		55.6		1,381.6
1977	1,075.8		100.2		208.5		208.4		61.3		1,531.6
1978	1,209.8		116.9		236.4		224.1		69.6		1,717.4
1979	1,350.3		130.8		271.3		252.0		80.7		1,923.7

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

**Related income, which is called "other labor income" by the Department of Commerce, includes compensation for injuries, employer contributions under private pension and related programs, and other items such as the pay of military reservists and directors' fees.*

***Transfer payments include benefit payments made under government (Federal, State and local) social security, unemployment and veterans' programs, and miscellaneous payments by business.*

rise in 1979 over 1978 was in personal interest income (17.4%) followed by farm proprietors' income (15.2%). Increases in rental income of persons at 3.9% and nonfarm proprietors' income at 10.0% were well below the average increases in the other components of personal income.

In contrast to the previous three years, the income from rent, interest and dividends exceeded the income from transfer payments in 1978 and 1979. However, the increase in 1979 was mainly from increases in interest income, to a lesser extent from dividends and only nominally from rent.

Transfer payments (income of persons, generally in monetary form, for which no services are rendered currently) had been increasing faster than the increase in income received by current producers. Liberalized social security, veterans' and especially government pension and welfare benefits accounted for these rises. These increases have been accentuated as the social security and government pension benefit rises have been tied to increases in the consumer price index. For example, transfers absorbed 10.0% of personal income in 1970, reached 14.2% in 1975 and stood at 13.1% in 1979.

TABLE 7

DISPOSITION OF PERSONAL INCOME, SELECTED YEARS, 1970-1979

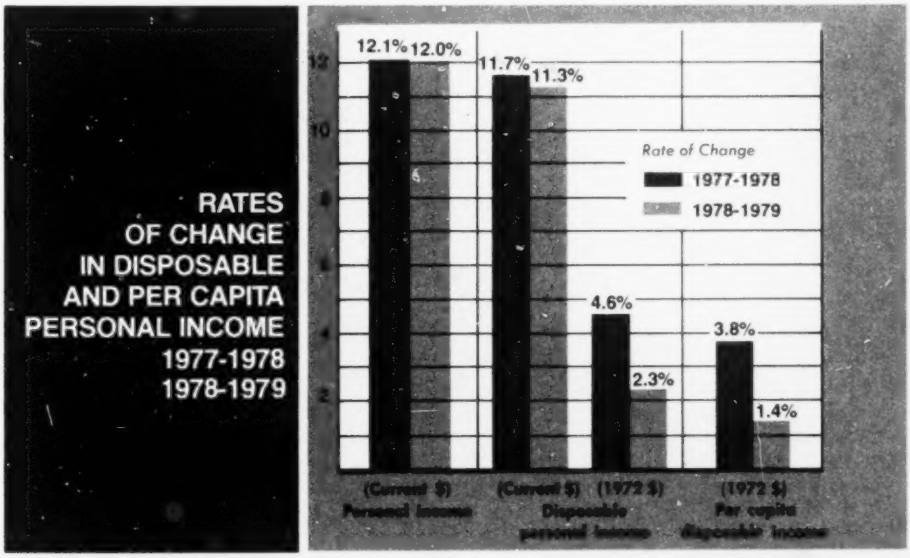
(In billions of dollars)

Year	Personal Income	–	Tax and Nontax Payments	=	Disposable Personal Income	–	Personal Outlays	=	Personal Saving
1970	801.3		115.3		686.0		635.4		50.6
1975	1,255.5		168.8		1,086.7		1,003.0		83.6
1976	1,381.6		197.1		1,184.5		1,115.9		68.6
1977	1,531.6		226.4		1,305.1		1,240.2		65.0
1978	1,717.4		259.0		1,458.4		1,386.4		72.0
1979	1,923.7		300.0		1,623.7		1,550.5		73.2

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

CHART 12



Disposable Income

Personal tax payments for the year 1979 at $300.0 billion were up 15.8% from 1978. At $1,623.7 billion, disposable personal income was up 11.3% from 1978 (Table 7). Personal outlays at $1,550.5 billion were up 11.8% leaving personal saving at $73.2 billion for an increase of 1.7% from 1978.

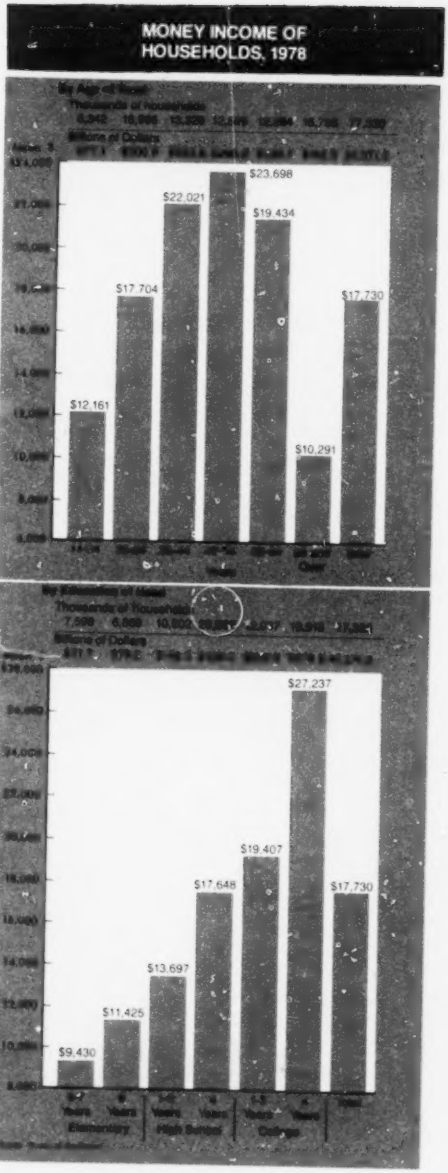
Real Income

Consumer prices as measured by the consumer price index for all urban consumers was 11.3% higher for the year 1979 than for 1978—up from the 7.7% increase in 1978 over 1977 and higher than the previous peak for the decade of 11.0% in 1974 over 1973. The effect on increases in income of increased prices for 1979 is shown in Chart 12. While personal income in 1979 rose 12.0%, income after taxes rose 11.3% in current dollars but if disposable personal income is adjusted for price changes and measured in prices of 1972, the rise was only to 2.3% above the 1978 level. When account is also taken of population changes, real per capita disposable income at $4,511 (in 1972 prices) in 1979 was 1.4% above 1978, well below the 3.8% rise the year before.

Households and Families

A household by definition includes "all of the persons who occupy a house, an apartment, or other group of rooms, or a room which constitutes a housing unit," whereas a family is defined as "a group of two or more persons related by blood, marriage, or adoption and residing together." Thus, a family is essentially a sociological unit, whereas a household is an economic unit which is the primary unit of consumption for many goods and services, especially housing, house operations, consumer durables, and frequently food.

CHART 13



Household Income

Median money income of households in the United States in 1978 was $15,064, the latest year for which these data are available. Mean income in 1978 was at $17,730.

As shown in Chart 13, household income tends to rise until the head of the

household reaches late middle age and to decline thereafter. In 1978, the latest year for which data are available, the mean income (that is the total income for the group divided by the number in the group) rose from $12,161 for households in which the head was under 25 years of age to $23,698 for households headed by a person between 45 and 54 years of age, then declined to $10,291 for households in which the head was 65 years of age or over.

Education of the household head is one of the most important determinants of household income. The largest single group is that in which the household head has completed high school but gone no further in school. In 1978, this group comprised 33.6% of the households, and the mean income was about equal that for all households. At the one extreme, where the household head had completed 4 or more years of college, there were 18.0% of the households, the mean was 53.6% above that for all households. At the other extreme, where the household head had completed less than 8 years of school, there were 9.8% of the households, and the mean income was 46.8% below that for all households.

Other characteristics of households that reveal varying levels of household income are number in the household, type of residence (farm-nonfarm, inside or outside metropolitan area, owner occupied or not), and region of the country (Table 8).

TABLE 8

SELECTED CHARACTERISTICS OF HOUSEHOLDS—NUMBER, MEAN INCOME, AND AGGREGATE INCOME OF EACH GROUP, 1978*

	Thousands of Households	Mean Household Income	Aggregate Income (In billions of dollars)
All Households	77,330	$17,730	1,371.0
Type of Household			
Male head	57,342	$20,629	1,182.9
Female head	19,987	$ 9,412	188.1
Number in Household			
One	17,201	$ 9,154	157.5
Two	23,928	$17,330	414.7
Three	13,392	$20,349	272.5
Four	12,274	$22,562	276.9
Five	6,187	$23,686	146.5
Six	2,573	$23,956	61.6
Seven or more	1,774	$23,272	41.3
Type of Residence			
Nonfarm	74,934	$17,753	1,330.3
Farm	2,396	$17,016	40.8
Inside metropolitan area	52,799	$18,779	991.5
Outside metropolitan area	24,531	$15,471	379.5
Owner occupied	52,283	$20,264	1,059.5
Renter occupied	23,356	$12,471	291.3
Paid no cash rent	1,690	$12,000	20.3
Region			
Northeast	17,227	$18,147	312.6
North Central	20,551	$18,003	370.0
South	24,738	$16,652	411.9
West	14,813	$18,666	276.5

Source: Bureau of the Census.

Note: Parts may not add to totals due to rounding.

**Numbers as of March 1979.*

Family Income

The median income of all families in the United States was $17,640 in 1978 and the mean was $20,091 (Table 9). After adjusting for the 7.6% increase in prices between 1977 and 1978, there was an increase in real median income of $410 (or 2%).

The average annual increase in real median income of families since 1970 has been 0.8%, which was much less than the average annual increase experienced between 1960 and 1970 (3.0%). The slower growth in real median income during the 1970's is in part related to slower overall economic growth and the severe recession from November 1973 to March 1975. Real median family income increased 7% between 1970 and 1973, when the median (in 1978 dollars) reached $17,680. However, median income declined by 6% between 1973 and 1975 and the increase of 6% since 1975 resulted in a median family income for 1978 that was not significantly different from the peak reached in 1973.

In addition to the economic problems of recession and high-level inflation during the 1970's, there were also changes in family structure which have affected income levels. From March 1970 to March 1979, there was a substantial increase in the proportion of families maintained by a female householder with no husband present (from 10% to 15%). There was also an increase, from 28% to 30%, in the proportion of families maintained by younger persons (under 35 years of age). These changes have exerted a downward influence on overall median income since families maintained by women and younger persons tend to have lower incomes.

Families residing on a farm in 1978 experienced a larger increase in real income over 1977 than nonfarm families. The 1978 median income for farm families ($15,280) represented a 12% increase in real terms over the 1977 median, whereas the median for nonfarm families ($17,730) represented only a 2% increase.

TABLE 9

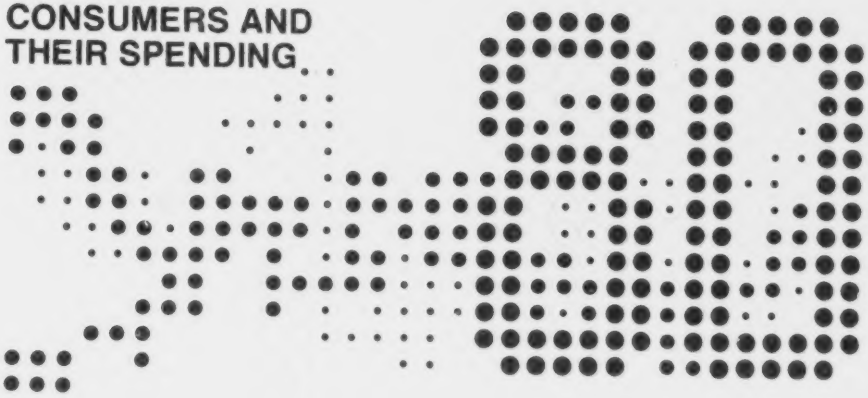
FAMILIES AND UNRELATED INDIVIDUALS BY TOTAL MONEY INCOME IN 1978

	Families		Unrelated Individuals	
Total Money Income	Thousands	Percent Distribution	Thousands	Percent Distribution
Under $6,000	6,430	11.1%	11,251	45.8%
$6,000 to $8,999	5,584	9.7%	4,100	16.7%
$9,000 to $11,999	5,770	10.0%	3,131	12.7%
$12,000 to $14,999	5,745	9.9%	2,022	8.2%
$15,000 to $24,999	18,161	31.4%	3,147	12.8%
$25,000 and over	16,115	27.9%	935	3.8%
Total	57,804	100.0%	24,585	100.0%
Memorandum				
Median Income	$17,640	—	$6,705	—
Mean Income	$20,091	—	$8,919	—

Source: Bureau of the Census.

Note: Parts may not add to totals due to rounding.

CHAPTER 4
CONSUMERS AND THEIR SPENDING



As productivity increased, incomes rose, more choices among alternative uses of income appeared, and consumer decisions of individuals became more complex. An increasing variety of new goods and services appeared on the market. The results of consumer decisions, reflecting individual preferences, gave rise to a widely varying pattern of consumer behavior. However, as productivity stopped rising or declined the alternatives for spending have become more limited.

Decisions in the private business sector and in government are also made by individuals. The results of these decisions become a part of business policy or government policy. Because the actions which implement these policies have an impact on broad segments of the population and direct large expenditures, each of these decisions has a far-reaching effect on the economy. Moreover, such decisions, once made, are not subject to quick change.

As individuals of diverse backgrounds take advantage of broadened educational opportunities and are attracted to new lines of work, business and government policies are changed and take on new directions. Changing consumer wants, determined in part by age distribution of the population and the level and types of education also alter the course and nature of the economy. However, since government decisions affect all of the population, and business decisions a broad segment, they have a more immediately discernible impact than do the changing patterns of consumer behavior.

One broad measure of the allocation of goods among the major sectors of the economy is gross national product (GNP).

Gross National Product

The gross national product, defined as the value of goods and services produced during the year, was $2,369.4 billion in 1979, up 11.4% from the previous year (Table 10). If account is taken of an overall 8.9% rise in prices (based on 1972 dollars), there was an increase of 2.3% from 1978 to 1979. Of the total product, personal consumption expenditures amounted to $1,510.0 billion (63.7%), government purchases $476.4 billion (20.1%), domestic investment $387.2 billion (16.3%), but net exports resulted in a negative $4.2 billion (−0.1%).

Personal Outlays

Personal outlays (defined by the Department of Commerce to include consumption expenditures, interest payments by individuals and transfers abroad by individuals) on average moved up nearly proportionately with disposable personal income during the 1960's. During recessions or pauses in business growth when durable goods spending was greatly reduced, consumer outlays dropped to as low as 92.5% of disposable income and during strong recovery periods went up to

TABLE 10

GROSS NATIONAL PRODUCT, SELECTED YEARS, 1970-1979

Year	Total GNP	Personal Consumption Expenditures: Durable Goods	Nondurable Goods	Services	Total	Government Purchases	Domestic Investment	Net Exports
				(Billions of current dollars)				
1970	982.4	84.9	264.7	269.1	618.8	218.9	140.8	3.9
1975	1,528.8	132.6	408.9	437.5	979.1	338.4	190.9	20.4
1976	1,702.2	157.4	443.9	488.5	1,089.9	361.3	243.0	8.0
1977	1,899.5	178.8	481.3	549.8	1,210.0	396.2	303.3	(−)9.9
1978	2,127.6	200.3	530.6	619.8	1,350.8	435.6	351.5	(−)10.3
1979	2,369.4	213.1	596.9	700.0	1,510.0	476.4	387.2	(−)4.2
				(Billions of constant dollars)				
1970	1,075.3	88.9	282.7	297.3	668.9	250.2	154.7	1.4
1975	1,202.3	112.7	306.6	355.3	774.6	262.6	142.6	22.6
1976	1,273.0	126.6	321.5	372.5	820.6	263.3	173.4	15.8
1977	1,340.5	138.2	332.7	390.8	861.7	268.5	200.1	10.3
1978	1,399.2	146.7	343.3	410.8	900.6	273.2	214.3	11.0
1979	1,431.7	147.2	349.1	428.3	924.6	274.3	215.3	17.5

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

over 95%. However, since 1970 personal outlays have equaled or exceeded 95% of disposable personal income for only three years, 1977 (95.0%), 1978 (95.1%), and 1979 (95.5%) and showed no significant change during the 1973-1975 recession.

Personal income in 1979 totaled $1,923.7 billion (Chart 14). Of this amount, 15.6% or $300.0 billion went for personal tax payments, 3.8% or $73.2 billion was channeled into personal saving, and 2.1% or $40.5 billion went into interest payments and transfers abroad. The remainder of the personal income dollar—78.5%—was spent for goods and services, defined by the Commerce Department as personal consumption expenditures.

Personal Saving

The personal saving rate (saving as a percent of disposable personal income) dropped to a low of 3.4% in the fourth quarter of 1979 after a steady decline each year since 1975 when it was 7.7%. For 1979 as a whole the rate averaged 4.5%. The downward trend in the rate during 1978 and 1979 may have reflected consumers' attempts to maintain their level of purchases of goods and services in the face of sharp price increases or in anticipation of future price increases.

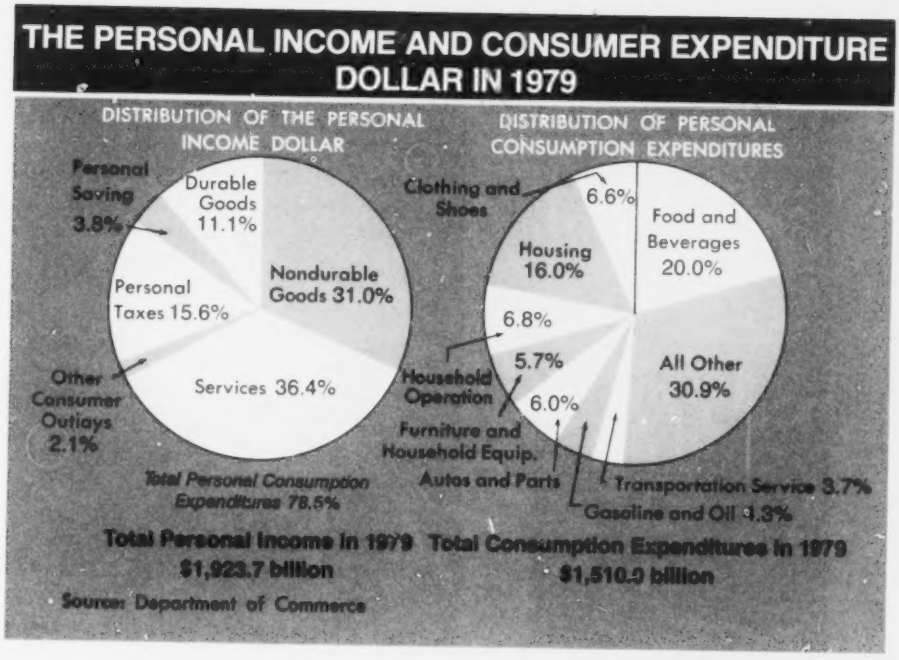
Personal Consumption

Personal consumption expenditures, at $1,510.0 billion in current dollars with no adjustment for price changes, increased 11.8% in 1979, up slightly from an increase of 11.6% in 1978. Expenditures for durable goods were up only 6.4% from 1978 after rising 12.0% the previous year. Expenditures for services continued to rise rapidly (12.9% increase in 1979 over 1978). Expenditures for nondurable goods were up 12.5% led by fuel oil and coal (30.7%), and gasoline and oil (27.9%).

Personal consumption expenditures in real terms (1972 dollars) increased 2.6% in 1979 over 1978 and were at a new high for any year. However, in real terms there was a decline in spending for motor vehicles and parts (6.7%), gasoline and oil (4.6%), and fuel oil and coal (5.5%).

Retail auto sales continued at a high level through the first three quarters of 1979, but during the fourth quarter the

CHART 14



sales of domestically produced automobiles declined while imports increased and reached a record 24% of total unit sales. Domestic passenger cars at 8.34 million units in 1979 were down from 9.31 million in 1978, while sales of imports at 2.33 million were up from 2.00 million in 1978. Total auto sales at 10.67 million in 1979 were down 5.6% from the 11.31 million sold in 1978.

Budgets and Spending

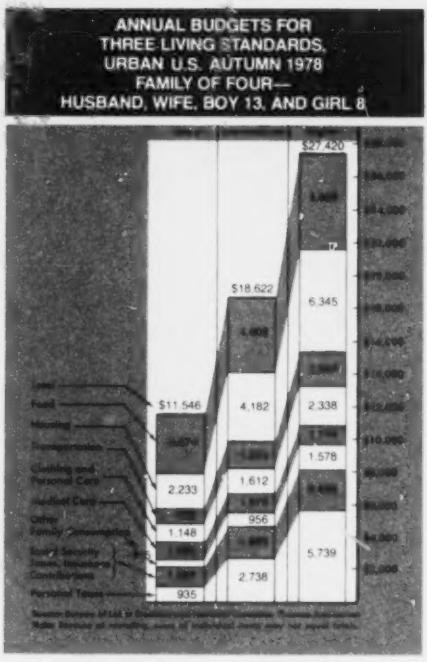
Spending patterns differ widely for families depending not only on income but also on the family size and age make-up, manner of living and place of residence.

The Bureau of Labor Statistics has developed several sets of budgets which describe a specified manner of living for various types of families. Among them are budgets for three levels for an urban family of four persons—husband, wife; 13-year-old boy, and 8-year-old girl. Estimates of the budget costs in 39 metropolitan areas, 4 regional classes of nonmetropolitan areas, and urban U.S. are available for autumn 1978. These estimates were derived by applying price changes and income tax changes between earlier estimates and autumn 1978.

This carefully defined budget-type family consisting of a 38-year-old husband, employed full time, a wife not employed outside the household, a boy of 13, and a girl of 8, has average inventories of clothing, home furnishings, major durables, and other equipment. At this middle stage in the life cycle—after about 15 years of married life—the family is well established, and the husband generally an experienced worker.

For the intermediate budget, the U.S. urban average cost was $18,622 in the autumn of 1978 (Chart 15). The cost of the lower budget was $11,546—38% less than the intermediate. The higher budget amounted to $27,420—47% above the intermediate budget. These figures include costs of consumption—food, housing, transportation, clothing, medical care, and education—as well as other expenses including life insurance, occupational expenses, social security payroll deductions, and personal taxes.

CHART 15



Family consumption items comprised 75% of the intermediate family budget in autumn 1978 with the remaining 25% composed of gifts and contributions, occupational expenses, life insurance, and social security and personal income taxes. Total family consumption at the lower and higher budget levels comprised 81% and 70% of the family budget, respectively.

Food costs accounted for 31% of total family budgets at the lower level, 25% at the intermediate, and 21% at the higher level. Food costs represent the largest single component for the lower and intermediate budget levels while the largest component at the higher level is housing expenditures at 23%.

Inflation has altered drastically the respective proportions of income going for components of consumption and for taxes. Chart 16 shows that a budget identical to that requiring $27,420 in 1978 would have required $16,558 in 1972.

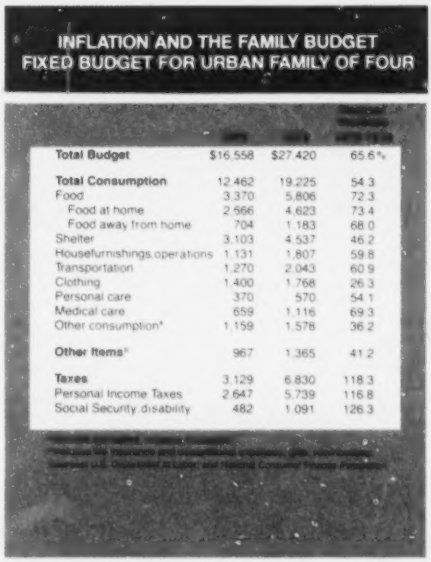
Taxes rose by substantially more than any other category. Income taxes rose by 116.8% and Social Security contributions by 126.3%, both more than double the rate of increase for consumption goods and services. Of the entire rise in living costs, over a third was accounted for by taxes (including social security taxes). Items that increased more than the average of 54.3% for total consumption were food (72.3%), house operations (59.8%), transportation (60.9%), and medical care (69.3%). Items that increased least were clothing (26.3%), and a miscellaneous group including recreation, tobacco and education (36.1%).

Measuring Consumer Behavior

The growing and more widespread awareness of the complexities and significant economic role of personal income, spending and saving has given rise to the development of indicators designed to measure more precisely various aspects of the consumer sector. With the constant refinement of these types of indicators, there is a broader understanding of changing consumer attitudes toward goods, services, security, credit, family needs, and changing family values.

The Conference Board, at monthly intervals, reports consumer attitudes and buying plans based on surveys conducted by National Family Opinion, Inc. The re-

CHART 16


INFLATION AND THE FAMILY BUDGET
FIXED BUDGET FOR URBAN FAMILY OF FOUR

Total Budget	$16,558	$27,420	65.6%
Total Consumption	12,462	19,225	54.3
Food	3,370	5,806	72.3
Food at home	2,566	4,623	73.4
Food away from home	704	1,183	68.0
Shelter	3,103	4,537	46.2
Housefurnishings,operations	1,131	1,807	59.8
Transportation	1,270	2,043	60.9
Clothing	1,400	1,768	26.3
Personal care	370	570	54.1
Medical care	659	1,116	69.3
Other consumption*	1,159	1,578	36.2
Other Items*	967	1,365	41.2
Taxes	3,129	6,830	118.3
Personal Income Taxes	2,647	5,739	116.8
Social Security,disability	482	1,091	126.3

sults of these surveys are summarized in two indexes—the Index of Buying Plans and the Index of Consumer Confidence. Both of these indexes appear to have been useful guides which preceded downturns in the economy in previous business cycles (Chart 17). At 105.6 (1969-70=100) the Index of Buying Plans in December 1979 was not significantly different from year-end 1978. The Index of Consumer Confidence suggests that consumers were relatively pessimistic through most of 1979.

Indexes of Consumer Financial Behavior, developed by the National Consumer Finance Association and referring to base year 1967=100, highlight recent trends in consumer income and its uses and thus assist in the task of projecting the effects of such trends in the overall economy (Chart 18).

Compared to the third quarter of 1978 the indexes in the fourth quarter were up for all components except personal saving and installment credit extended.

Personal income at a seasonally adjusted annual rate in the fourth quarter of 1979 was 219.7% above that of 1967. Personal taxes were 292.3% above 1967 leaving disposable personal income 208.7% above and the saving component 40.6% above. On the consumer expenditure side, consumers were spending 211.1% more than in 1967 for durable goods, 196.6% more for nondurable goods, and 252.8% more for services. Consumers were borrowing (other than mortgages) 259.0% more while repaying 246.6% more.

Changing Spending Patterns

Rising educational levels, the changing age mix, the greater prevalence of working wives, shifting social values, product innovation, and diverse price trends all contribute to changing patterns of consumption.

Spending patterns of consumers are subject to a continuous process of change. Generally rising income levels have shifted expenditures from the basic re-

CHART 17

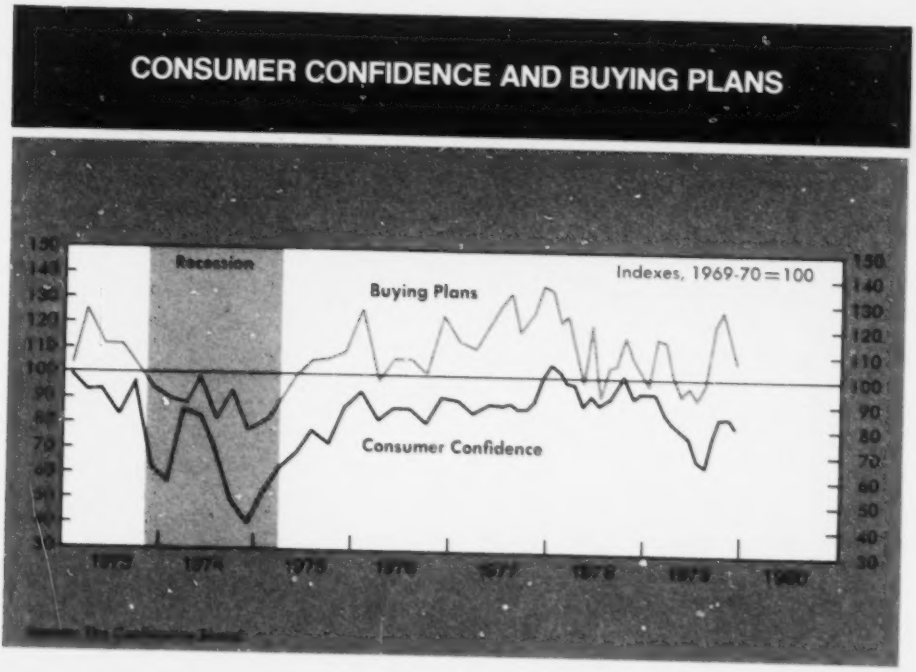
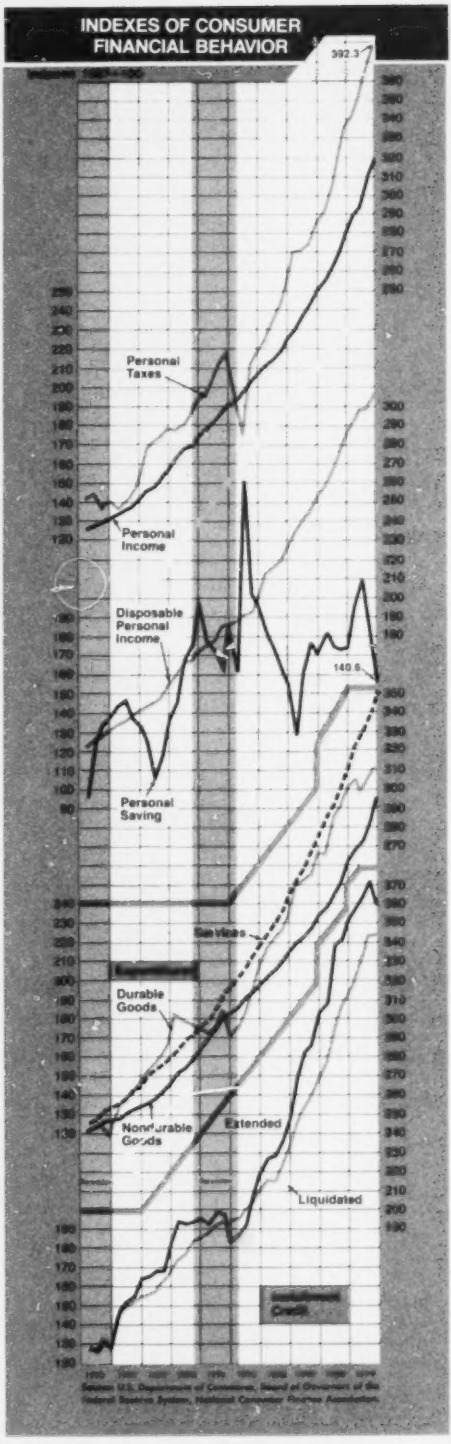


CHART 18



quirements of food, shelter and clothing to services and goods which fit the general category of luxuries or of capital goods.

Consumers as Capitalists

Consumers have become capitalists in the strictest sense of the word. In addition to wider ownership of the means of production they generally own the physical capital which provides the services necessary to satisfy many of their wants for living quarters, transportation, household services and entertainment.

The most recent available data on home ownership are for 1977, when 65% of all households owned the housing unit in which they lived. The rate of ownership varied from about 49% for households with incomes under $10,000 to 88% for those with incomes of $25,000 and over. Among husband-wife households 77% were homeowners. About 35% of these households with a head under 25 years of age owned their own home. The ownership rate for the husband-wife 25 to 44 year age group was about 74% and for the 35 and above age groups was over 80%.

In 1976, 84% of all households had one or more cars available including 91% of the homeowning households. These latter estimates would include leased automobiles.

In order to purchase these capital items (homes, automobiles, television sets, refrigerators and other consumer durables) which require a high initial outlay, the consumer borrows or finances them and pays for them as he uses the services of the item bought. Thus, just as a corporation sells debentures to finance the cost of purchasing goods-producing machines and the local school district floats a bond issue to build a school, in a similar way the consumer finances the purchase of capital goods which require a large initial outlay. When financing in this manner, the corporation commits part of its future earnings to repayment of the debentures, the school district commits part of its future tax receipts to repayment of the bond issue, and the consumer commits a part of his future income to payments on a mortgage (in the

case of a home) or to installment payments (in the case of consumer durables).

Capital Formation

Capital formation (in physical terms) may be defined as the property and goods added during a time period to the stock of property and goods that promote the production of other goods or services. In this sense, owner-occupied houses and consumer durables purchased by consumers during a year are similar in nature to the investment by business. Capital formation by consumers has exceeded capital formation by business in each of the last five years. After allowance is made for capital consumption, consumers in 1979 added $52.3 billion in owner-occupied housing and $54.6 billion in consumer durables, for a total of $106.9 billion. Net capital formation by business amounted to $90.9 billion in 1979 (Table 11).

TABLE 11

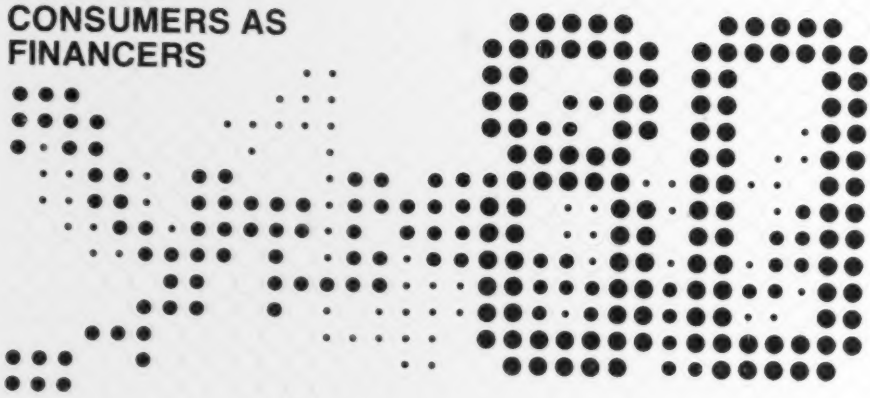
CAPITAL FORMATION, 1973-1979

(In Billions of Dollars)

	1973	1974	1975	1976	1977	1978	1979
Gross Capital Formation	343.7	336.6	323.5	400.4	482.1	551.8	599.0
Business (Gross domestic investment minus household purchases of residences and condominiums)	179.2	175.0	150.3	188.6	231.1	261.5	295.7
Consumer	164.5	161.6	173.2	211.8	251.0	290.3	303.3
Housing (Household purchases of residence and condominiums)	40.8	39.6	40.6	54.4	72.2	90.0	90.5
Durables	123.7	122.0	132.6	157.4	178.8	200.3	212.8
Capital Consumption Allowances	202.5	231.1	268.0	294.6	323.4	359.7	401.2
Business (Capital consumption minus owned occupied homes)	100.6	117.9	139.8	153.4	167.2	184.1	204.8
Consumer	101.9	113.2	128.2	141.2	156.2	175.6	196.4
Housing	17.1	19.8	22.2	24.4	28.2	32.8	38.2
Durables	84.8	93.4	106.0	116.8	128.0	142.8	158.2
Net Capital Formation	141.2	105.5	55.5	105.8	158.7	192.1	197.8
Business	78.6	57.1	10.5	35.2	63.9	77.4	90.9
Consumer	62.6	48.4	45.0	70.6	94.8	114.7	106.9
Housing	23.7	19.8	18.4	30.0	44.0	57.2	52.3
Durables	38.9	28.6	26.6	40.6	50.8	57.5	54.6

Source: Federal Reserve Flow of Funds Accounts Series.

CHAPTER 5
CONSUMERS AS FINANCERS



Consumers as a group, by their decisions to spend, save or invest, have become a decisive factor in determining the course and level of future business activity. With the increase and wider distribution of discretionary spending power and the broader knowledge of alternative uses of income, consumers, as well as business enterprises and governments, play significant roles in the economic functions of saving, investing and capital accumulation. However, as taxes and other payments to government as required by law have increased, and as the rate of inflation accelerated, the scope of individual decisions as to spending and saving has become more limited.

Financing Government

In 1979, individuals were taxed and made payments to social insurance funds as required by law in the amount of 21.7% of their earnings from current activity, that is, personal income minus transfer payments plus payments to social insurance funds. In 1970, the percentage was 19.1% (Table 12). Taxes paid by individuals in 1979 at $299.8 billion, were up 15.8% from 1978 due largely to increased income. Payments by individuals to social insurance funds increased from $70.0 billion in 1978 to $80.7 billion, in 1979—a 15.3% increase following a rise in 1978 of 14.2%.

Saving and Investment

A useful tool for determining the part played in saving and investing by various segments of the economy is the flow-of-funds series published by the Federal Reserve Board. This series defines saving as the "excess of current receipts over current expenditures by each sector." By this definition, the gross saving by households is preliminarily estimated at $360.1 billion in 1979, 6.4% above 1978 (Table 13). Net saving at $158.0 billion in 1979 was up only nominally as personal saving increased by $0.8 billion, credits from government insurance increased by $2.7 billion and net durables in consumption declined by $2.9 billion.

Investment is defined as the "sum of net purchases of tangible assets (expenditures for both newly produced and previously existing tangible assets, less sales of tangible assets) and net acquisitions of financial assets less net increases in liabilities." By this definition, gross investment of households in 1979 is preliminarily estimated at $393.6 billion of which $314.7 billion was capital expenditures for homes, durables, etc. (up 5.5% from 1978), and $78.8 billion was net financial investment, down 3.8%. Net acquisition of financial assets by households amounted to $243.0 billion in 1979 and net increase in liabilities $164.1 billion.

Households as recorded in the flow-of-funds series include households and non-

profit organizations serving individuals, such as foundations, private schools and hospitals, labor unions, and charitable, welfare and religious organizations.

Consumer Saving vs. Borrowing

Consumer decisions to spend all of their income currently, to save or to borrow are influenced not only by income but also by expenditure needs, and by expectations about the future. The decisions made reflect to a great degree the age and make-up of the family. No simple formula exists for families to use in determining how much debt they can safely carry. Studies by the Department of Agriculture, however, show average income, expenditure, debt and liquid assets for four broad age groups in the early 1960's, the latest years for which such data are available. Ratios based on these average ages suggest certain general guidelines depending on differing needs, wants, prospects, and financial resources for these groups.

TABLE 12

FINANCING GOVERNMENT BY INDIVIDUALS
SELECTED YEARS, 1970-1979

(In billions of dollars except as indicated by percent)

	1970	1975	1976	1977	1978	1979[P]
Total Federal Government Receipts	192.1	286.2	331.4	375.4	432.1	497.6
Total State and Local Government Receipts*	110.5	182.2	206.9	231.2	253.6	274.3
Total All Government Receipts	302.6	468.5	538.3	606.6	685.7	771.9
Received from individuals:						
In billions of dollars	143.3	219.3	252.7	287.7	329.0	380.5
Percent of total	47.4%	46.8%	46.9%	47.4%	48.0%	49.3%
Total Tax and Nontax Receipts of All Governments	243.9	357.9	412.3	464.2	521.6	581.9
Received from individuals:						
In billions of dollars	115.3	168.8	197.1	226.4	259.0	299.8
Percent of total	47.3%	47.2%	47.8%	48.8%	49.7%	51.5%
Total Social Insurance Fund Receipts	58.7	110.6	126.0	142.5	164.1	189.8
Received from individuals:						
In billions of dollars	28.0	50.5	55.6	61.3	70.0	80.7
Percent of total	47.7%	45.7%	44.1%	43.0%	42.7%	42.5%
Income of Persons from Current Earnings (Personal Income Minus Transfer Payments Plus Payments to Social Insurance Funds)	749.4	1,127.8	1,243.3	1,384.5	1,562.9	1,752.4
Percent paid to government for:						
Taxes, etc.	15.4%	15.0%	15.9%	16.4%	16.6%	17.1%
Social Insurance funds	3.7%	4.5%	4.5%	4.4%	4.5%	4.6%

Source: Department of Commerce.

Note: Parts may not add to totals due to rounding.

[P] *Preliminary.*

* *Less Federal grants-in-aid.*

For young families (head under 35 years) current expenditures averaged slightly more than current income. Debt including home mortgages averaged 81% of current annual income while liquid assets and investments averaged 39% of debt owed.

Changes in family needs, on the average, as the age of family head increases are reflected in changes in these ratios. For example, the ratio of debt to income declines from 81% in the young family to 78% for the growing family (head 35 to 54 years), to 41% for the contracting family (head 55 to 64 years) to 38% for the retired family (head 65 years and over).

These absolute ratios are probably not applicable in 1979 given the economic changes since the early 1960's, especially considering the inflationary spiral of the 1970's. Nevertheless, they do suggest some relative guidelines based on the different age classifications of the family head and the family make-up.

Credit Market Debt Outstanding

It is a rare coincidence when the need for expensive items, especially capital goods, can be financed by cash savings held by those requiring the item. This is true whether it is government, a business or a household that requires the use of the item. Just as business uses commercial credit or issues bonds to finance the purchase of capital goods, so consumers finance the purchase of tangible assets—homes and consumer durable goods—through the use of home mortgages and various forms of consumer credit. As more and more consumers chose to buy and own more and more tangible assets, rather than to pay others to supply the services which these assets provide over the years, the level of total consumer debt increased faster than other debt during the 1950's. During late 1960's and early 1970's the debt of private business generally rose

TABLE 13

SAVING AND INVESTMENT BY HOUSEHOLDS, SELECTED YEARS, 1970-1979[P]

(In billions of dollars)

	1970	1975	1976	1977	1978	1979[P]
Gross saving	160.5	258.2	273.3	299.9	338.3	360.1
Net saving	68.3	125.6	127.5	138.8	157.3	158.0
Personal saving	50.6	83.6	68.6	65.0	72.0	72.8
Credits from government insurance	8.9	15.1	17.9	22.4	27.1	29.8
Capital gains dividends	0.9	0.2	0.5	0.6	0.7	0.8
Net durables in consumption	7.9	26.6	40.6	50.9	57.5	54.6
Capital consumption	92.2	132.6	145.8	161.0	181.0	202.0
Gross investment	167.0	282.9	310.7	334.6	380.1	393.6
Capital expenditures (homes, durables, etc.)	115.0	181.0	220.5	260.8	298.2	314.7
Net financial investment	52.0	101.9	90.2	73.8	81.9	78.8
Net acquisition of financial assets	76.5	153.8	187.7	219.1	248.3	243.0
Net increase in liabilities	(−)24.5	(−)51.9	(−)97.5	(−)145.3	(−)166.4	(−)164.1
Discrepancy (saving − investment)	(−)6.5	(−)24.6	(−)37.5	(−)34.7	(−)41.8	(−)33.5

Source: Federal Reserve Board.

Note: Parts may not add to totals due to rounding.

[P] *Preliminary NCFA estimate.*

much faster than that of consumers or of government. In 1979, consumer debt rose by 13.7% above that of 1978, while business debt was 13.8% above and government debt 10.1% above 1978 (Table 14).

In 1979, consumer debt comprised 29.2% of public and private debt outstanding—up from 27.4% in 1970. Public debt, which is net debt of Federal, State and local governments and their agencies, declined from 30.5% in 1970 to 29.0% in 1979, while the proportion accounted for by private business decreased slightly from 42.1% to 41.8%. Of the total increase in debt of $2,647.0 billion, from $1,599.0 billion in 1970 to $4,246.0 billion in 1979, consumers accounted for 30%, governments 28%, and private business for 42%.

In terms of overall effect on the money and credit situation, consumer debt at $1,241.1 billion in 1979 carried much less weight than did either the debt of private business or government. Because of the millions of consumers, each owing a relatively small amount, no single unit could have great effect on the market. This dispersion of the decision making process is in contrast to business or government where large amounts of debt are owed by a few units and changes in debt management policy by a single unit may have broad economic impact.

Consumer Balance Sheet

A balance sheet is important to business to measure assets and what is owed against those assets. A similar statement is useful to the consumer.

The total assets of consumers are estimated at $6,023.6 billion as of December 31, 1979. At the same time, consumers had liabilities of $1,297.9 billion leaving them a net worth of $4,725.7 billion (Chart 19 and Table 15).

TABLE 14

CREDIT MARKET DEBT OWED BY SECTOR, AND OTHER SELECTED CLAIMS
SELECTED YEARS, 1970-1979*

(In billions of dollars)

CREDIT MARKET DEBT OWED BY	1970	1975	1976	1977	1978	1979
Public	487.4	781.9	886.2	993.3	1,116.7	1,229.4
U.S. Government securities	343.0	558.1	646.7	730.1	825.3	916.7
State and local	144.4	223.8	239.5	263.2	291.4	312.7
Private financial and nonfinancial	673.8	1,128.3	1,219.0	1,362.5	1,559.9	1,775.4
Corporate and foreign bonds	201.3	317.0	354.2	390.4	422.0	455.7
Mortgages	178.5	315.9	339.6	377.3	421.3	474.9
Other debt	294.0	495.4	525.2	594.8	716.6	844.8
Consumer	437.7	708.9	798.4	935.6	1,091.2	1,241.1
Home mortgages	294.6	485.6	549.6	646.2	751.2	858.8
Consumer credit	143.1	223.3	248.8	289.4	340.0	382.3
Total	1,599.0	2,619.2	2,903.6	3,291.4	3,767.8	4,246.0
OTHER SELECTED CLAIMS						
Security Credit	24.9	28.5	41.1	47.2	47.6	50.7
Trade Credit	185.2	223.4	246.8	273.8	323.8	394.9
Investment Company Shares	47.6	42.2	4. .0	42.8	42.6	46.2
Other Corporate Equities	859.4	849.5	1,059.7	996.6	1,043.5	1,198.3

Source: Federal Reserve Board Flow of Funds Series.
Note: Parts may not add to totals due to rounding.
**Data are as of the end of calendar year.*

TABLE 15

THE CONSUMER BALANCE SHEET
SELECTED YEARS, 1970-1979

(End of period in billions of dollars)

	1970	1975	1976	1977	1978	1979
Demand deposits and currency	117.8	166.9	181.9	203.7	222.1	228.4
Savings accounts	426.7	772.6	881.9	991.1	1,096.3	1,181.0
Life insurance and pension fund reserves	369.9	532.3	603.0	652.0	729.0	832.8
Government securities	153.2	220.9	233.4	250.4	278.9	317.3
Corporate and foreign bonds	34.3	63.5	69.3	66.3	64.8	71.6
Corporate stock at market value	729.4	659.7	827.2	777.0	808.5	906.9
Other financial assets (net)	43.7	63.1	70.2	83.7	102.4	125.5
Subtotal Financial Assets	1,875.0	2,479.0	2,866.9	3,024.2	3,302.0	3,663.5
Nonfarm family home ownership	562.5	956.4	1,077.4	1,253.4	1,448.6	1,506.4
Value of consumer-owned durable goods	368.9	591.2	644.7	710.7	799.1	853.7
Subtotal Fixed Assets	931.4	1,547.6	1,722.1	1,964.1	2,247.7	2,360.1
Total Assets	2,806.4	4,026.6	4,589.0	4,988.3	5,549.7	6,023.6
Home mortgages	290.7	479.0	540.6	634.0	738.2	847.0
Consumer credit	143.1	223.3	248.8	289.4	340.0	382.2
Bank loans, insurance loans, etc.	28.4	45.2	48.0	53.2	58.8	68.7
Total Liabilities	462.2	747.5	837.4	976.6	1,137.0	1,297.9
Consumer Net Worth	2,344.2	3,279.1	3,751.6	4,011.7	4,412.7	4,725.7

Source: Federal Reserve Board, Bureau of the Census, National Consumer Finance Association.
Note: Parts may not add to totals due to rounding.

TABLE 16

CONSUMER ASSET TO DEBT RATIOS,
END OF PERIOD, SELECTED YEARS, 1970-1979

	1970	1975	1976	1977	1978	1979
Ratio of:						
Assets to debts excluding home ownership	13.1:1	11.4:1	11.8:1	10.9:1	10.3:1	10.0:1
Home ownership to mortgage debt	1.9:1	2.0:1	2.0:1	2.0:1	2.0:1	1.8:1
All assets to all debts	6.1:1	5.4:1	5.5:1	5.1:1	4.9:1	4.6:1
Percent of owners' equity in all assets	83.5%	81.4%	81.8%	80.4%	79.5%	78.5%

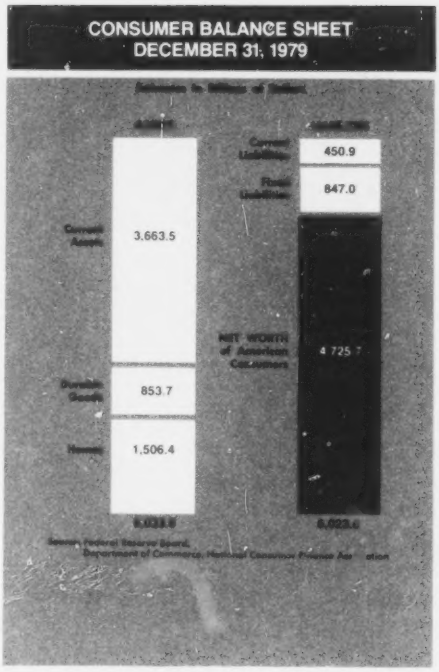
Source: Table 15.

Current (financial) assets were estimated at $3,663.5 billion. Fixed assets included $1,506.4 billion in homeownership and $853.7 billion as the value of durable goods for a total of $2,360.1 billion.

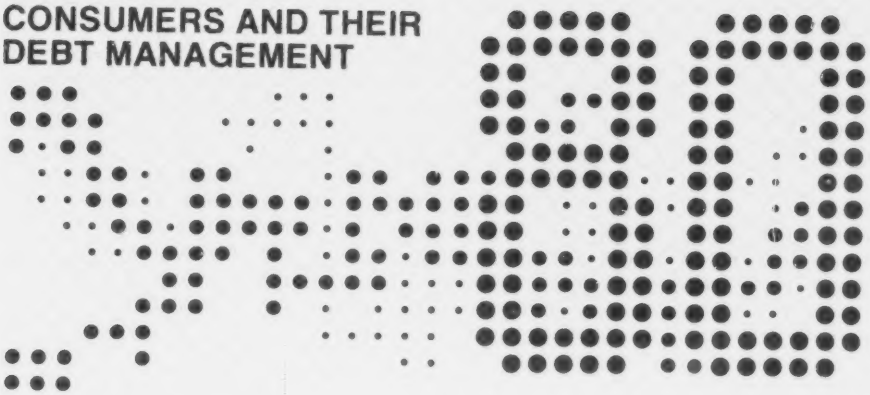
Current liabilities stood at $450.9 billion and fixed liabilities of mortgage debt at $847.0 billion to bring total liabilities to $1,297.9 billion.

Asset and debt position of the American consumer at the end of 1979 showed 10.0 to 1 asset-to-debt ratio of all assets and debts excluding those involving homeownership where the ratio was 1.8 to 1 (Table 16). The ratio of all assets to all debts was 4.6 to 1. Owners' equity stood at 78.5% of consumer assets at year-end 1979.

CHART 19



CHAPTER 6
CONSUMERS AND THEIR DEBT MANAGEMENT



Approximately 69% of consumer indebtedness is in the form of home mortgages (Chart 20). About 25% is in the form of installment credit, defined by the Federal Reserve as "most short- and intermediate- term credit extended to individuals through regular business channels, usually to finance the purchase of consumer goods and services or to refinance debts incurred for such purposes, and scheduled to be repaid (or with the option of repaying) in two or more installments." About 6% of consumer debt is noninstallment, that is, 30 day charge credit held by retailers, oil and gas companies, travel and entertainment companies, and single-payment loans at commercial banks.

Revised Statistics

Recognition of changed institutional patterns over the last several years led to a revision in late 1978 of the statistics published by the Federal Reserve. One example of change in the last decade has been widespread development of the plastic card as a credit device. Also, the last five years have seen rapid expansion in use of the second mortgage as security for loans: (1) to finance the purchase of consumer goods and services or (2) to refinance debts incurred for such purposes.

The revised estimates reflect: (a) new benchmark information; (b) elimination of an adjustment that was designed to exclude from bank data certain credit used by households for business or other nonconsumer purposes; (c) the addition beginning in 1971 of open-end credit used by individuals through gasoline credit cards; and (d) the addition beginning in 1977 of some retailer-held credit formerly classified as noninstallment credit.

Credit to finance the purchase of consumer goods and services or to refinance debts incurred for such purposes including those secured by second mortgages or other junior liens on real estate is included in the data for finance companies. The data for some other credit holders also include some loans secured by junior liens on real estate. Some components of the series include unearned (precomputed) finance charges.

The series excludes loans to finance the purchase of new or existing homes which are reported in statistics on real estate lending. Also excluded are: (a) loans against the cash value of life insurance policies or generally against savings accounts; (b) noninstallment credit to individuals; and (c) loans to farmers.

The statistics show data separately for commercial banks, finance companies, credit unions, retailers, savings and loan associations, mutual savings banks, and credit cards issued by gasoline companies.

Installment credit is reported by category for the purchase of automobiles and for mobile homes. Revolving credit, which formerly was reported for commer-

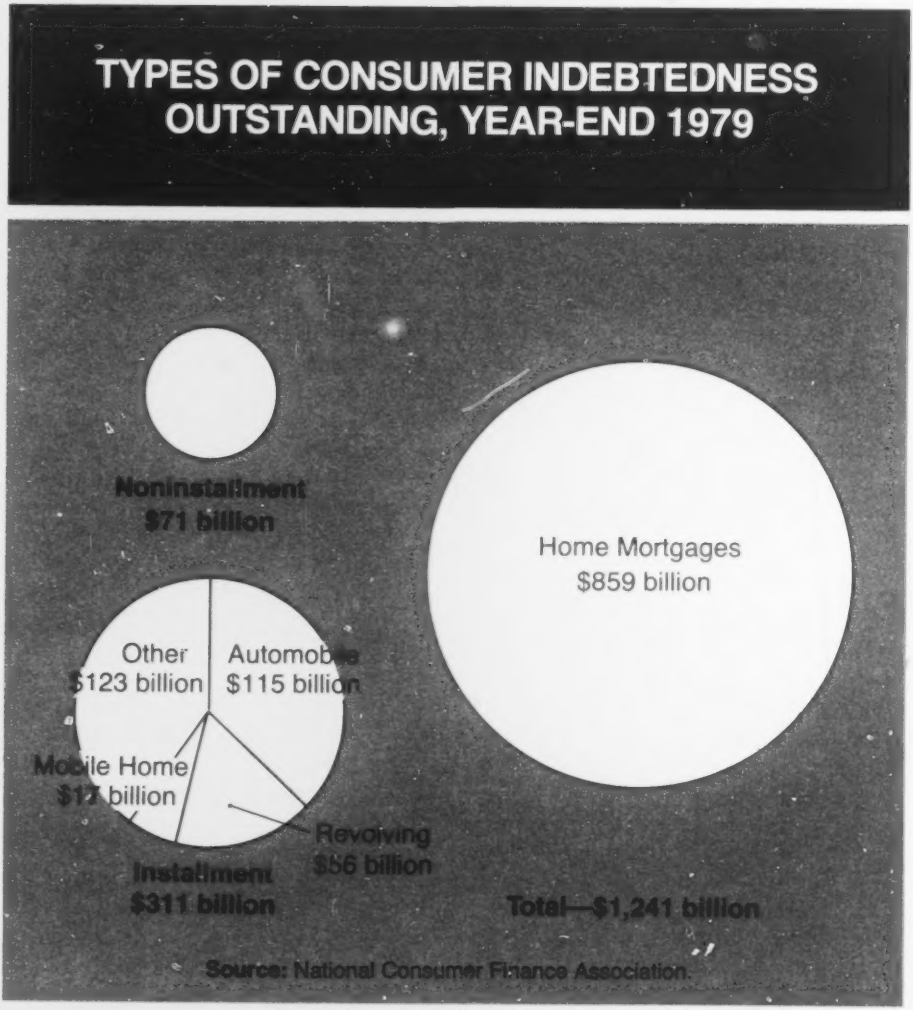
cial banks only, was expanded in 1978 to include retailers and gasoline companies.

For lack of better nomenclature, the final category is called "Other." Evolving market practices have blurred the distinctions among certain types of credit, including personal loans, home improvement loans, and sales finance paper (for other than automobiles and mobile homes). Therefore, these types of installment credit are combined in a single category.

Noninstallment Credit

The major categories of noninstallment credit, which is generally of a convenience nature, are the single payment loans generally negotiated at a commercial bank, retailers' charge accounts with balances paid in 30 days or less, and service credit which represents debts payable to hospitals, physicians, public utilities, etc. At the end of 1979 noninstallment credit amounted to $70.9 billion.

CHART 20



Consumer Installment Credit

Of the $311.1 billion in consumer installment credit outstanding at the end of 1979, 48.1% was held by commercial banks, 21.9% by finance companies, 15.5% by credit unions, 9.0% by retailers, 3.3% by savings and loan associations, 1.4% by gasoline companies, and 0.8% by mutual savings banks (Table 17).

By type of credit, $115.0 billion, or 37.0% of the installment credit outstanding at the end of 1979, was for the purchase of automobiles (Table 18). Generally, the automobile serves as security for installment contracts which are written by deal-

TABLE 17

CONSUMER CREDIT OUTSTANDING, EXTENSIONS, LIQUIDATIONS, AND NET CHANGE, BY HOLDER, SELECTED YEARS, 1970-1979

(In billions of dollars)

	1970	1974	1976	1977	1978	1979
Outstanding at Year End						
Installment—Total	105.5	164.6	194.0	230.8	275.6	311.1
Commercial Banks	48.7	80.1	93.7	112.4	136.2	149.6
Finance Companies	27.6	36.1	38.9	44.9	54.3	68.3
Credit Unions	13.0	21.9	31.1	37.6	45.9	48.2
Retailers	13.9	18.1	19.3	23.5	24.9	27.9
Savings and Loans	1.5	4.3	6.2	7.3	8.4	10.4
Gasoline Companies	na	2.6	2.8	3.0	3.2	4.3
Mutual Savings Banks	0.9	1.5	1.8	2.2	2.7	2.4
Noninstallment—Total	37.6	48.8	55.4	58.6	64.7	70.9
Installment Extensions						
During Year	115.1	172.8	211.0	254.1	298.4	322.5
Commercial Banks	45.9	76.1	97.4	118.0	142.7	149.6
Finance Companies	31.7	34.1	36.2	42.0	50.5	61.5
Credit Unions	14.0	19.6	29.3	34.0	40.0	36.8
Retailers	21.5	27.2	29.4	39.2	41.6	46.1
Savings and Loans	1.2	2.6	3.9	4.5	5.1	7.3
Gasoline Companies	na	11.9	13.4	14.6	16.1	19.6
Mutual Savings Banks	0.8	1.3	1.5	1.9	2.3	1.6
Installment Liquidations						
During Year	110.4	163.3	189.4	218.8	253.5	287.1
Commercial Banks	43.3	71.9	86.7	99.2	118.9	136.2
Finance Companies	32.0	33.3	33.2	36.0	41.0	47.5
Credit Unions	13.1	17.4	23.8	27.6	31.7	34.5
Retailers	20.7	25.7	28.4	36.5	40.2	43.1
Savings and Loans	0.6	1.9	2.8	3.4	4.0	5.4
Gasoline Companies	na	11.9	13.3	14.5	15.8	18.5
Mutual Savings Banks	0.7	1.1	1.4	1.6	1.8	1.9
Net Change During Year						
Installment—Total	4.8	9.5	21.6	35.3	44.8	35.5
Commercial Banks	2.7	4.1	10.8	18.7	23.8	13.4
Finance Companies	(−)0.3	0.8	2.9	6.0	9.4	14.0
Credit Unions	1.0	2.2	5.5	6.5	8.3	2.2
Retailers	0.6	1.5	1.1	2.7	1.4	3.0
Savings and Loans	0.5	0.7	1.1	1.1	1.0	2.0
Gasoline Companies	na	0.0	0.1	0.1	0.3	1.1
Mutual Savings Banks	0.1	0 2	0.1	0.4	0.5	(−)0.3
Noninstallment—Total	na	0.8	4.3	3.2	6.1	6.2

Source: Federal Reserve Board.

Note: Parts may not add to totals due to rounding.

na Not available.

TABLE 18

CONSUMER INSTALLMENT CREDIT OUTSTANDING AT YEAR END AND NET CHANGE DURING YEAR, BY TYPE BY HOLDER SELECTED YEARS, 1970-1979

(In billions of dollars)

	1970	1974	1976	1977	1978	1979
Outstanding at Year End—Total	105.5	164.6	194.0	230.8	275.6	311.1
Automobile	36.3	54.3	67.7	82.9	102.5	115.0
Commercial Banks	22.3	32.8	39.6	49.6	60.6	65.2
Credit Unions	5.0	10.9	15.2	18.1	22.0	23.0
Finance Companies	9.0	10.6	12.8	15.2	19.9	26.8
Revolving	5.1	13.7	17.2	39.3	47.1	55.3
Commercial Banks	5.1	11.1	14.4	18.4	24.4	29.0
Retailers	na	na	na	17.9	19.4	22.1
Gasoline Companies	na	2.6	2.8	3.0	3.2	4.3
Mobile Home	2.5	14.6	14.6	15.1	16.0	17.4
Commercial Banks	na	9.0	8.7	9.1	9.6	10.0
Finance Companies	2.5	3.5	3.3	3.1	3.2	3.4
Savings and Loans	na	1.9	2.2	2.5	2.8	3.5
Credit Unions	na	0.2	0.3	0.4	0.5	0.5
Other	61.6	82.0	94.5	93.5	110.1	123.4
Commercial Banks	21.3	27.2	31.0	35.3	41.6	45.4
Finance Companies	16.1	21.9	22.8	26.6	31.2	38.2
Credit Unions	8.0	10.8	15.6	19.1	23.5	24.6
Retailers	13.9	18.1	19.3	5.6	5.5	5.9
Savings and Loans	1.5	2.4	4.0	4.8	5.5	6.8
Mutual Savings Banks	0.9	1.5	1.8	2.2	2.7	2.4
Net Change During Year—Total	4.8	9.5	21.6	35.3	44.8	35.5
Automobile	(−)0.6	0.5	10.5	15.2	19.6	12.6
Commercial Banks	(−)0.4	(−)0.5	6.3	10.0	11.0	4.7
Credit Unions	0.2	1.1	2.5	2.9	3.9	1.1
Finance Companies	(−)0.4	(−)0.1	1.6	2.4	4.7	6.8
Revolving	1.4	2.0	2.2	6.2	7.8	8.3
Commercial Banks	1.4	2.0	2.1	4.0	6.1	4.5
Retailers	na	na	na	2.1	1.4	2.7
Gasoline Companies	na	0.0	0.1	0.1	0.3	1.1
Mobile Home	0.1	1.1	0.1	0.6	0.9	1.4
Commercial Banks	na	0.6	0.1	0.4	0.4	0.4
Finance Companies	0.1	0.2	(−)0.2	(−)0.2	0.1	0.2
Savings and Loans	na	0.3	0.2	0.3	0.3	0.7
Credit Unions	na	0.0	0.1	0.1	0.1	0.0
Other	3.8	6.0	8.9	13.3	16.6	13.3
Commercial Banks	1.6	2.0	2.3	4.3	6.3	3.8
Finance Companies	0.0	0.7	1.5	3.8	4.7	7.0
Credit Unions	0.8	1.1	2.9	3.5	4.4	1.1
Retailers	0.8	1.5	1.1	0.6	(−)0.1	0.4
Savings and Loans	0.5	0.4	0.9	0.3	0.7	1.3
Mutual Savings Banks	0.1	0.2	0.1	0.4	0.5	(−)0.3

Source: Federal Reserve Board.

Note: Parts may not add to totals due to rounding.

na Not available.

TABLE 19

CONSUMER INSTALLMENT CREDIT, BY TYPE AND HOLDER, 1979

(In millions of dollars)

	Outstanding Year-end 1978	Extensions 1979	Liquidations 1979	Outstanding Year-end 1979
Total Installment Credit	275,629	322,558	287,067	311,123
Commercial Banks	136,189	149,599	136,185	149,603
Finance Companies	54,298	61,518	47,498	68,318
Credit Unions	45,939	36,778	34,531	48,186
Retailers	24,876	46,092	43,052	27,916
Savings and Loans	8,394	7,333	5,366	10,361
Gasoline Companies	3,240	19,607	18,531	4,316
Mutual Savings Banks	2,693	1,631	1,904	2,421
Automobile	102,468	91,847	79,293	115,022
Commercial Banks	60,564	50,596	45,931	65,229
Credit Unions	21,967	18,301	17,226	23,042
Finance Companies	19,937	22,950	16,136	26,751
Revolving	47,051	120,728	112,449	55,330
Commercial Banks	24,434	60,406	55,886	28,954
Retailers	19,377	40,715	38,032	22,060
Gasoline Companies	3,240	19,607	18,531	4,316
Mobile Homes	16,042	6,395	5,029	17,409
Commercial Banks	9,553	3,720	3,283	9,991
Finance Companies	3,152	797	559	3,390
Savings and Loans	2,848	1,687	1,019	3,516
Credit Unions	489	191	168	512
Other	110,068	103,588	90,296	123,361
Commercial Banks	41,638	34,877	31,085	45,430
Finance Companies	31,209	37,771	30,803	38,177
Credit Unions	23,483	18,286	17,137	24,632
Retailers	5,499	5,377	5,020	5,856
Savings and Loans	5,546	5,646	4,347	6,845
Mutual Savings Banks	2,693	1,631	1,904	2,421

Source: Federal Reserve Board.

Note: Parts may not add to totals due to rounding.

ers and sold to banks or finance companies, or as security for loans made by financial institutions for their purchase. Predominant in financing these purchases were the commercial banks, with $65.2 billion outstanding of which $37.2 billion was purchased paper and $28.0 billion loans for the purchase of automobiles. Finance companies held $26.8 billion, most of which was financed by the subsidiaries of manufacturers—that is GMAC, Ford Motor Credit and Chrysler Financial. Credit unions held $23.0 billion in loans which had been made for the purchase of automobiles.

Commercial banks had revolving credit outstanding in the amount of $29.0 billion, retailers $22.1 billion and gasoline companies $4.3 billion.

Commercial banks were financing mobile homes in an amount of $10.0 billion, finance companies had mobile home financing outstanding of $3.4 billion, and other institutions $4.0 billion.

All other consumer installment financing of $123.4 billion consisted of $45.4 billion by commercial banks, $38.2 billion by finance companies, $24.6 billion by credit unions, $5.9 billion by retailers (including the wholly owned finance subsidiaries of chain stores such as Sears and Montgomery Ward), $6.8 billion by savings and loan associations, and $2.4 billion by mutual savings banks. This "other" category includes the financing of household goods such as appliances and furniture, as well as all personal loans (Table 19).

Credit Extensions

The total volume of consumer installment credit extended in 1979 was $322.5 billion, an increase of $24.1 billion, or 8.1% more than was extended in 1978. This percentage rise was less than the 17.4% rise in 1978.

Through 1976, the dollar net change in credit extensions was generally less in each quarter than the net change in personal outlays (both quarterly data, seasonally adjusted at annual rates). As the economy moved from recession in early 1975, the gap between net change in personal outlays and net change in installment credit narrowed. As the recovery moved on, the relationship was reversed and the net change in installment credit exceeded the change in personal outlays for each quarter from the second quarter of 1977 through second quarter of 1979. However, in the last two quarters of 1979 the net change in personal outlays exceeded that of installment credit (Chart 21).

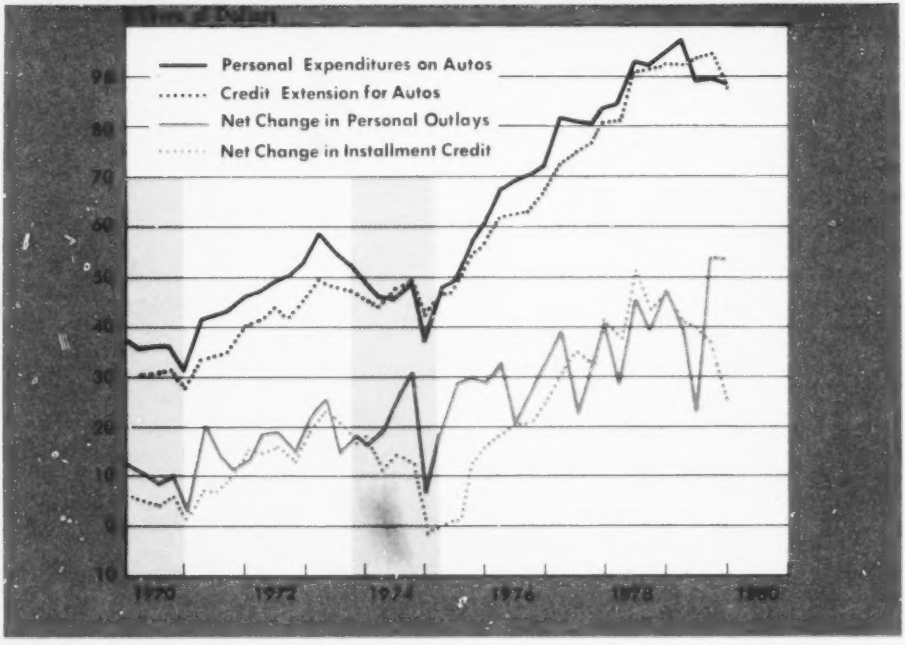
Extensions of consumer credit for auto financing slightly exceeded consumer expenditures for autos during 1979 as reported by the Department of Commerce. This near equality of expenditures and financing contrasts sharply with the 98% in 1978, 93% in 1977, and 91% in 1976. In 1979, $91.8 billion in installment credit was extended for the purchase of autos by consumers, an increase of only 3.1% over 1978.

Changes in auto credit extended are closely associated with changes in unit sales of autos. But the volume of auto credit also depends on the proportion of cars sold on credit, the average size of installment contracts, which increased in 1979, and the maturities of contracts, the average of which also increased as the

CHART 21

INSTALLMENT CREDIT FOR CONSUMER FINANCING 1970-1979

(Quarterly Data—Seasonally Adjusted at Annual Rates)



proportion of contracts on new cars written for over 42 months increased. Except for finance companies, details on these characteristics of automobile financing are no longer available from Federal Reserve data.

Liquidations

Liquidations, as reported by the Federal Reserve, include for many lenders such debits as charge-offs and refunds. In all, consumers liquidated $287.1 billion in 1979, of which $79.3 billion was for autos, $112.4 billion in revolving credit, $5.0 billion for mobile homes, and $90.3 billion in all other types of credit.

Debt liquidations in 1979 were equivalent to 17.7% of disposable personal income. Commonly used as a measure of the ability and willingness of consumers to incur more debt, this repayment ratio has varied since 1969 between a low of 15.6% in the second quarter of 1975 to a high of 18.0% in the third quarter of 1979 (Chart 22). In the fourth quarter of 1979, this percentage stood at 17.6%.

Debt liquidations as a percent of the previous year-end outstandings have dropped from 113% in 1977 to 110% in 1978 and 104% in 1979.

Rates of Charge

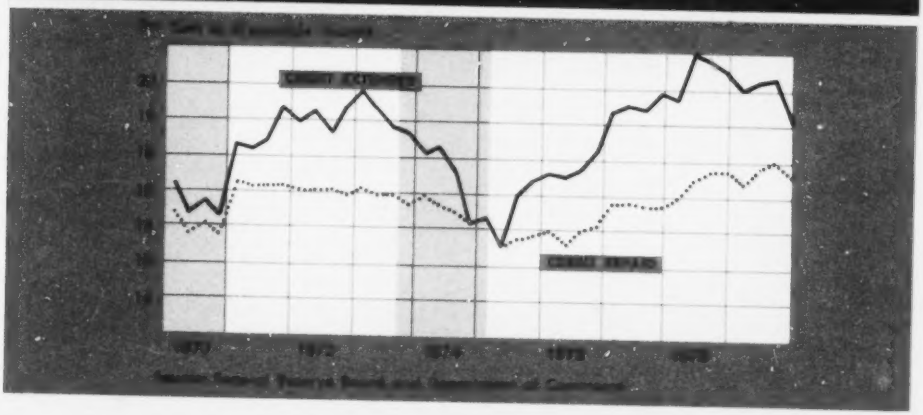
Rates charged by finance companies on purchased retail automobile paper in November 1979 averaged 13.82% for new cars and 18.41% for used cars. Though no comparable figures are available for commercial banks their rates on purchased paper were probably about the same as those of finance companies. The most frequent rate charged on direct loans by banks to consumers to finance new automobiles over a 36 month period in November 1979 was 12.85%.

The average rate charged by finance companies on 84 month mobile home contracts during November 1979 was 13.83% and the most common rate for mobile home loans by banks in November was 13.51%.

Data for personal cash loans outstanding, those made for a variety of purposes including consolidation of existing debts, are not available in detail except for finance companies. However, information on rates of charge for such loans indicate rates of from 15% to 18% for well secured large loans, and rates up to 36% for smaller loans of about $300 or less. During December 1979, the most common effective rate charged by commercial

CHART 22

RATIO OF CONSUMER INSTALLMENT CREDIT TO DISPOSABLE PERSONAL INCOME, 1970-1979
(Seasonally Adjusted Quarterly Totals at Annual Rates)



banks on 12 month installment loans was 14.56%. Major finance companies were charging an overall average 20.58% for loans of various sizes and maturities (excluding second mortgage loans) with an average of $1,701 as the amount financed. Rates of charge for consumer financing by credit unions to their members in 1979 generally approximated 12%. Major finance companies were financing installment contracts at rates approximating 18.6% in November 1979. It is probable that rates of charge by retailers, including the wholly owned finance subsidiaries of chain stores, were about the same. Most of the financing by retailers was, however, in the form of revolving credit at a rate averaging about 17%. Rates of charge for revolving credit in most instances probably approximated the commercial bank charge which averaged 16.93% in November 1979.

Survey of Consumer Finances

Studies by the Survey Research Center of the University of Michigan provided detailed information on the characteristics of borrowers until the surveys were discontinued in 1971. In 1976, the Board of Governors of the Federal Reserve System authorized a detailed survey of consumers' views on credit. The interview questionnaire for this survey probed two significant aspects of consumer credit. First, it explored use by consumers of different types of credit, updating the *Surveys of Consumer Finances* undertaken by the Survey Research Center between 1946 and 1971. Second, it measured consumers' awareness, understanding, attitudes, and behavior regarding credit and its regulation, a largely unresearched area. Published by the Federal Reserve as the 1977 *Consumer Credit Survey*, the study consti-

TABLE 20

ANNUAL INSTALLMENT DEBT PAYMENTS TO PREVIOUS YEAR'S FAMILY INCOME*

(In percent of families)

		Annual Installment Debt Payments (Percent of family income)				
	No Debt	Less than 10%	10% to 19%	20% to 39%	40% and more	Not Ascertained
All Families	46.5	26.7	15.6	6.2	1.0	3.8
Age of Family Head (years)						
Under 25	34.9	16.4	25.2	13.5	3.4	6.3
25-34	31.1	36.0	21.4	7.6	1.0	3.1
35-44	32.4	37.8	16.9	6.0	1.3	5.5
45-54	42.0	30.7	14.6	6.4	0.8	5.2
55-64	55.6	24.0	11.9	5.1	0.6	2.8
65-74	82.2	7.0	6.6	1.7	0.8	1.7
75 and over	94.9	1.6	1.6	0.8	—	0.8
Family Income (dollars)						
Less than 3,000	79.7	4.5	1.3	3.8	5.1	5.6
3,000- 4,999	69.2	7.1	7.6	9.2	4.3	2.7
5,000- 7,499	59.0	13.1	13.5	10.8	1.4	2.3
7,500- 9,999	44.3	21.0	20.1	8.2	1.4	5.1
10,000-14,999	41.9	22.2	23.8	8.7	0.4	2.9
15,000-19,999	34.2	34.8	22.8	4.7	—	3.5
20,000-24,999	31.7	42.4	16.4	4.6	—	5.0
25,000 and more	41.7	43.3	7.8	1.6	—	5.7

Source: Federal Reserve *1977 Consumer Credit Survey.*

Note: Parts may not add to totals due to rounding.

**Ratio of August or September 1977 payments to 1976 monthly income, excluding home mortgages and credit cards.*

tutes the first comprehensive analysis of information obtained in the survey. It examines the lines of direct and indirect questioning used to gather information about the variables, as well as the responses obtained. Chapters 2 and 10 examine the responses to questions on consumer credit protection legislation. Chapters 11 to 21 review consumers' income, assets, debts, and housing; they also update many of the tables from the earlier *Surveys of Consumer Finances*.

Incidence of Consumer Credit Usage

The Federal Reserve survey conducted in 1977 revealed that 46.5% of all families owed no consumer installment debt. Over one-quarter of all families (26.7%) had installment debt payments (excluding home mortgages and credit cards) of less than 10% of family income; 15.6% had payments of 10-19% and 7.2% of 20% or more (Table 20).

The Federal Reserve study shows the level of commitment for debt repayment by age groups of the family head. For example, 42.1% of the families where the family head was under 25, 30% in the 25 to 34, 24.2% in the 35 to 44, and 21.8% in the 45 to 54 year, and 17.6% in the 55 to 64 year age groups had 10% or more of their disposable income committed to repayment of installment credit. By contrast, 9.1% of those in the 65 to 74 year age group, and 2.4% of those 75 years of age and over had 10% or more of their disposable income in 1977 committed to repayment of installment credit.

Repayments as a percent of disposable income vary by income level of spending unit. For the low income levels under

TABLE 21

DISTRIBUTION OF FAMILIES REPORTING INSTALLMENT DEBT AND USE OF CREDIT CARDS, 1970 and 1977

(Percent of families)

	With Installment Debt*		Using Credit Cards	
	1970	1977	1970	1977
All Families	49	53.5	50	59.8
Age of Family Head (years)				
Under 25	59	65.1	42	38.7
25-34	67	68.9	61	64.6
35-44	63	67.6	57	72.4
45-54	56	58.0	60	68.4
55-64	36	44.4	46	61.1
65-74	14	17.8	37	48.7
75 and over	6	5.1	20	33.5
Family Income (dollars)				
Less than 3,000	19	20.3	na	22.2
3,000- 4,999	31	30.8	na	23.8
5,000- 7,499	52	41.0	na	33.3
7,500- 9,999	61	55.7	na	48.9
10,000-14,999	65	58.1	na	62.6
15,000-19,999	49**	65.8	na	72.8
20,000-24,999	**	68.3	na	82.1
25,000 and more	**	58.3	na	90.2

Source: Federal Reserve *1977 Consumer Credit Survey*.
Note: Parts may not add to totals due to rounding.
**Excluding home mortgages and credit cards.*
***$15,000 and more in 1970.*

$3,000, 79.7% had no installment payments in mid-1977 and another 4.5% had payments of under 10% of disposable income. Among those having income of $25,000 and over, 41.7% had no installment payments and 43.3% had payments of less than 10% of disposable income. Families with incomes of $15,000 to $24,999 seem most likely to be credit users as shown by the fact that over 65% of these families owed some installment credit in 1977. Families committed to installment payments of 20% or more of income comprised the largest percentage in the $3,000-$7,499 groups.

Credit card usage increased from 50% of all families in 1970 to 59.8% in 1977 (Table 21). All age groups, except the families headed by a person under 25 years of age (down from 42% to 38.7%), increased their usage of credit cards.

Statistics on the extent of the usage of real property as security for personal expenditures are not generally available. Some information on the uses of funds obtained, the sources of funds, and the size of second mortgage extension is shown in Table 22.

TABLE 22

LOANS SECURED BY REAL ESTATE OTHER THAN FIRST MORTGAGES—NONFARM HOMEOWNING FAMILIES, 1977

(In percent of number responding)

Uses of Funds Obtained	100.0
Downpayment	10.3
Appliances, durable goods	2.8
Additions or repairs to house	30.8
Automobiles	7.5
Other debts or expenses (bills, taxes, medical, education and other)	39.3
Not ascertained	9.3
Sources of Funds	100.0
Bank	30.4
Savings and loan/savings bank	9.8
Individual	12.8
Government agency	2.9
Other (mostly finance companies)	26.5
Dealer contractor	3.9
Credit union	4.9
Not ascertained	8.8
Size of Second Mortgage Extension	100.0
$1,000 and less	1.6
$1,001-$2,500	7.8
$2,501-$5,000	25.0
More than $5,000	56.2
Not ascertained	9.4
Memorandum	
Percent of families owning home	64.5%
Percent of homeowners with first mortgages	61.7%
Percent of homeowners with loans secured by other than first mortgages	5.8%

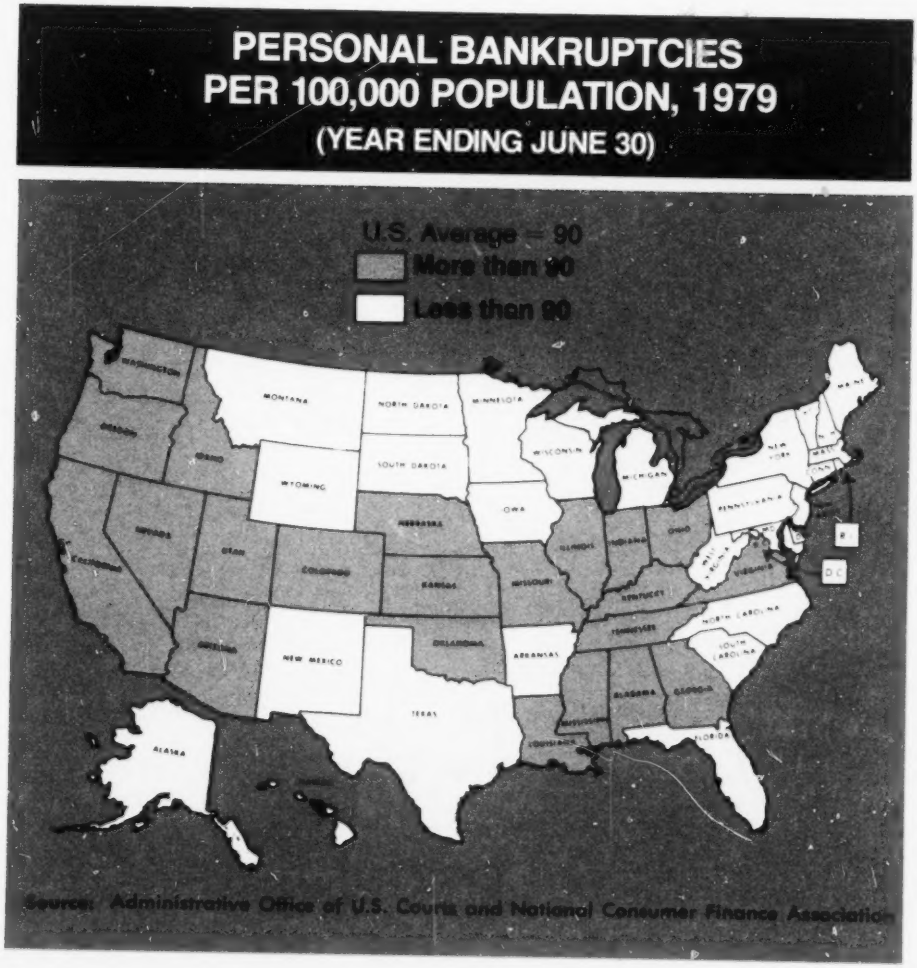
Source: Federal Reserve *1977 Consumer Credit Survey.*

Personal Bankruptcies

Personal bankruptcies are always a concern to credit grantors, the legal profession, legislators and social workers alike. During the fiscal year ending June 30, 1979, there were 196,951 personal (nonbusiness) bankruptcy petitions filed in the United States—an increase of 14.3% from the 172,282 petitions filed in fiscal 1978.

Thirty-eight states and the District of Columbia showed increases in nonbusiness bankruptcies in 1979 compared to 1978. Largest number of increases were in California, Illinois, Ohio, Michigan, Indiana, Virginia, and Georgia. Twelve states showed decreases in the number of bankruptcy petitions filed: Arizona, Connecticut, Delaware, Iowa, Maine, Massachusetts, New Jersey, North Dakota, Rhode Island, Vermont, West Virginia, and Wyoming.

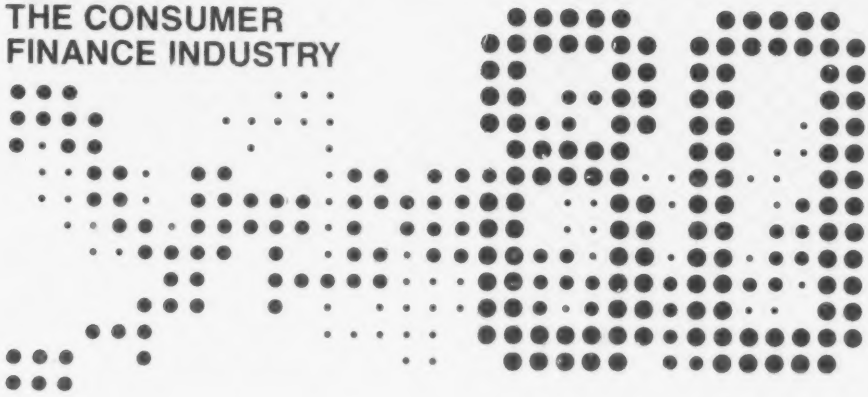
CHART 23


PERSONAL BANKRUPTCIES
PER 100,000 POPULATION, 1979
(YEAR ENDING JUNE 30)
U.S. Average = 90
More than 90
Less than 90
Source: Administrative Office of U.S. Courts and National Consumer Finance Association

On the average, there were 90 personal bankruptcies per 100,000 population in fiscal 1979, up from 80 in 1978. States with the largest number of personal bankruptcies per 100,000 population in 1979 were Alabama (194), Tennessee (182), Nevada (179), Idaho (170), Indiana (156), Kansas (147), Illinois (145), and Kentucky (142). States with the least number were South Carolina (14), Texas (28), Pennsylvania and Vermont (each 30), and Massachusetts and New Jersey (each 31).

While the bankruptcy law is a Federal law, it does permit different personal exemptions depending on State law. These elements of State law, as well as that of wage garnishment in various states, have noticeable effects on the number of bankruptcies by states. Moreover, the bankruptcy law is subject to differing interpretations in different districts, and some additional confusion results since the amendments of 1979. Though general economic conditions affect the level of bankruptcies among the population, many other factors are at work. It is difficult to explain why some states have more than an average number of bankruptcies and other states less (Chart 23).

CHAPTER 7
THE CONSUMER FINANCE INDUSTRY



Definition

The consumer finance industry is defined to include those corporations, partnerships or proprietorships whose primary purpose is to finance the consumer. This financing is done through direct cash loans or through the purchase of installment sales paper from dealers or retailers when consumers buy automobiles or other goods on time. Personal loans secured by second mortgages are a major component of this financing and open-end, or revolving credit, is made available to a limited extent.

The institutions specializing in this business are generally known as consumer finance (small loan) companies, sales finance companies, industrial banks and industrial loan companies. These companies at the end of 1979 held $68.3 billion installment credit outstanding, including $30.7 billion in personal loans, $26.8 billion in automobile financing, $3.4 billion in mobile home financing, and $7.5 billion in the financing of other consumer goods and home improvements. This consumer financial service is carried out in over 25,000 offices throughout the United States.

Many institutions are involved in credit financing for consumer purchases of goods and services. Many commercial banks have two departments, one of which specializes in personal installment loans and another which is responsible for credit card operations. Most savings and loan associations and mutual savings banks offer some form of personal loan as an adjunct to their major role of financing homes, and credit unions have as one major function the granting of loans to members. Each of these institutions also has a collateral role—that of accepting time and/or savings deposits as the major source of funds available for lending purposes. While retail outlets make credit available as a convenience to their customers, finance companies are the only institution whose primary role is to make installment credit available to consumers.

Accordingly, retailers as a group, and most financial intermediaries, including commercial banks, savings and loan associations, and credit unions, which have the dual purpose of receiving funds from savers and lending to borrowers, are not included in the following discussion of the consumer finance industry. However, finance company subsidiaries of bank holding companies are included.

Industrial banking companies or Morris Plan companies (known also as "thrifts" or industrial loan companies) which operate in 15 states, are permitted to, and some do, accept customer savings deposits or issue thrift certificates. These institutions in a real sense are depository financial institutions but they are grouped with finance companies in the consumer finance industry because their charters are most frequently held by subsidiaries of finance companies and in many instances are operated solely as lending institutions.

Size and Ownership

Finance companies vary in size and ownership from the one office independently owned and operated to the large chain companies which operate hundreds of offices across the country. Some medium-size and large companies are independently owned, others are subsidiaries of manufacturers, bank holding companies, insurance companies, or conglomerate firms. Alternatively, some companies in the industry have insurance and retail subsidiaries, some offer commercial financing, some have manufacturing subsidiaries, some have subsidiaries which operate in Canada and some in countries outside North America.

Long-Term Trends

The Board of Governors of the Federal Reserve System surveys finance companies every five years to obtain benchmark data on assets, liabilities, types of credit and number of companies by size. The most recent survey, which was carried out in mid-1975 revealed that 3,376 companies operated 26,884 offices. Total assets of finance companies at mid-1975 were $88,716 million, up from $60,577 million in 1970 (Table 23). Consumer receivables increased during the five-year period by 35% and business receivables by 71%. During this same period, personal cash loans increased by 35% while automobile paper increased by only 7%. The mid-1975 Federal Reserve Survey shows that finance companies traditionally operate on a relatively narrow capital base, relying primarily on borrowing as a source of funds. In mid-1975, as in previous surveys, stockholders' equity represented about one-sixth of total finance company liabilities and capital.

Banks have become a relatively less significant financer of finance companies

TABLE 23

SUMMARY OF FEDERAL RESERVE BENCHMARK DATA ON FINANCE COMPANIES, 1965, 1970, 1975

(In billions of dollars)

	As of June 30:		
	1965	1970	1975
Assets			
Consumer receivables	22,357	31,773	42,760
Business receivables	12,931	22,999	39,286
Other receivables	194	2,342	3,948
Total gross receivables	35,482	57,113	85,994
Less: Reserves for unearned income	2,633	5,131	7,684
Subtotal	32,849	51,982	78,310
Less: Reserves for losses	637	1,123	1,623
Total net receivables	32,212	50,859	76,687
Cash and bank deposits	1,481	2,022	2,869
Other assets	2,583	7,696	9,161
Total Assets	36,275	60,577	88,716
Liabilities and Capital			
Short-term borrowing	14,770	29,629	36,620
Long-term borrowing	12,925	16,470	29,731
Deposit liabilities and thrift certificates	707	639	1,480
Other liabilities	2,429	3,892	6,936
Subtotal liabilities	30,831	50,630	74,767
Capital, surplus and undivided profits	5,443	9,947	13,951
Total liabilities and capital	36,275	60,577	88,716

Source: Federal Reserve Quinquennial Surveys of Finance Companies.
Note: Parts may not add to totals due to rounding.

TABLE 24

CONSUMER INSTALLMENT CREDIT AT FINANCE COMPANIES, SELECTED YEARS, 1970-1979

(In millions of dollars)

	Total	Personal Loans	Automobile	Mobile Home	All Other
Outstanding (end of period)					
1970	27,580	12,718	9,042	2,461	3,359
1974	36,087	16,985	10,623	3,525	4,954
1975	35,995	17,263	11,214	3,445	4,073
1976	38,919	18,554	12,848	3,263	4,254
1977	44,868	21,302	15,235	3,077	5,254
1978	54,298	24,888	19,937	3,152	6,321
1979	68,318	30,685	26,751	3,390	7,492
Extensions					
1970	31,803	15,271	7,514	9,018	6,919
1974	34,061	17,162	8,604	1,376	3,830
1975	31,183	16,944	9,642	767	4,679
1976	36,129	19,579	11,169	702	6,336
1977	41,989	22,348	12,662	643	6,918
1978	50,505	26,228	16,473	886	7,794
1979	61,518	29,977	22,950	797	
Liquidations					
1970	31,946	15,037	7,885	9,024	6,724
1974	33,330	16,676	8,720	1,210	4,706
1975	31,265	16,665	9,051	843	4,475
1976	33,183	18,289	9,535	884	5,334
1977	36,041	19,600	10,275	832	5,850
1978	41,075	22,642	11,771	812	6,623
1979	47,498	24,180	16,136	559	
Net Change					
1970	(−)143	234	(−)371	(−)6	195
1974	731	486	(−)116	166	(−)876
1975	(−) 82	279	591	(−) 76	204
1976	2,946	1,290	1,634	(−)182	1,001
1977	5,948	2,749	2,387	(−)189	1,068
1978	9,430	3,586	4,702	74	1,171
1979	14,020	5,797	6,814	238	

Source: Federal Reserve Board and National Consumer Finance Association.
Note: Parts may not add to totals due to rounding.

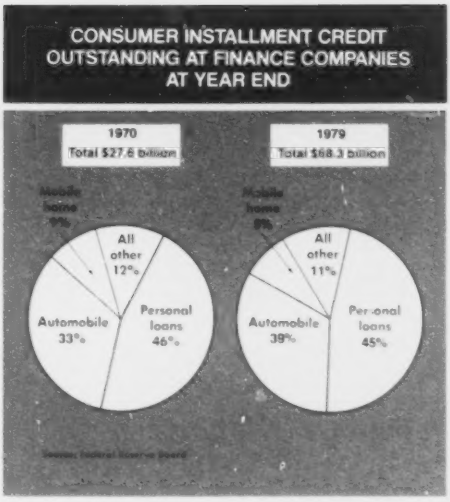
over the last ten year period. This type of financing has been replaced by commercial paper and other short-term debt. Deposit liabilities and thrift certificates have also grown more rapidly than the growth in assets.

Federal Reserve statistics from sample data and surveys by the National Consumer Finance Association reveal changed trends in the second half of the 1970's from those of the first half. The long-term decline in the percent of consumer installment credit held by finance companies was reversed in 1978 and at year-end 1979 stood at 21.9% compared to 19.4% in 1977 and 20.8% in 1975. This reversal probably reflects the entry of finance companies in new markets, especially larger loans secured by real property, and to a lesser extent open-end credit.

Types of Business

At the end of 1979, the $68.3 billion in consumer installment credit held by finance companies consisted of $30.7 billion in personal loans (45%), $26.8 billion in retail automobile paper (39%), $3.4 billion in mobile homes (5%), and $7.5 billion in other forms of consumer installment credit (11%). (Table 24 and Chart 24). The vast majority of finance companies offer a diversity of consumer credit services.

CHART 24



Though most finance companies and industrial banking companies now in operation had their early beginnings in the direct cash loan field, many started in the retail sales financing business. Most subsequently added the other services as a means of providing a more rounded and complete service for existing customers and in some cases as a means of attracting new customers to their offices.

The financing of automobiles and other consumer durable goods, the speciality of the sales finance company, is frequently a marginal profit activity, nearly always requiring high volume for success. Particularly in the financing of relatively small purchases, the total financing charge barely covers the cost of putting the account on the books, and is inadequate to cover the cost of servicing over a period of months or years.

Revolving or open-end consumer credit has not been a major element for finance companies partially because of restrictive legislation. However, with the increasing application of electronic fund transfers, more companies are showing an interest in expanding this type of service. From a limited sample of companies that reported to NCFA's survey, it may be estimated that over $0.7 billion was outstanding at the end of 1978.

Automobile Financing

As automobile manufacturers and other manufacturers expanded the operations of their finance company subsidiaries, and as retail chains established their own finance company subsidiaries, the market for the independent sales finance companies declined. In the 1970's, the commercial banks and credit unions also entered strongly into the field of automobile financing. However, in 1979 alternative markets for commercial bank lending and shortages of funds for credit unions shifted the financing of automobiles toward finance companies. At the end of 1979, commercial banks held 57% of the consumer installment auto credit outstanding (59% in 1978). Credit unions held 20% at the end of 1979 and 21% at the end of 1978. The $26.8 billion or 23% in 1979 held by finance companies was mainly held by the subsidiaries of automobile manufacturers. Most independent finance companies do a very limited amount of automobile financing and are in the direct cash loan field, or in many cases in commercial financing.

Financing Other Goods

Financing the purchase of mobile homes has also become a part of the operation of many finance companies though less substantial than a few years ago. At the end of 1979 this type of receivable at $3.4 billion constituted 5% of finance company outstandings down from 10% in 1974.

The medium of a limited retail sales financing service provides the consumer finance company with an opportunity to attract new customers to the use of direct loan services. The customer first comes to the finance company office as the result of his purchase of some household durable, for example, a refrigerator. He enters into the contract with a dealer (seller) who, in turn, discounts the paper with the finance company by assigning it (endorsing the contract) to the finance company and the customer (buyer) makes his monthly payments to the finance company under the same terms and conditions as his contract with the seller. In this transaction, the fi-

nance company has gained a customer to whom it can then offer its direct loan services as the customer proves his creditworthiness by the manner in which he makes his payments on the refrigerator. The customer establishes a credit relationship with the finance company which he may then draw on at any time he needs cash credit. This type of financing (and including some credit card or private label financing) comprised 11% of the consumer installment credit outstanding of finance companies at the end of 1979.

Personal Cash Loans

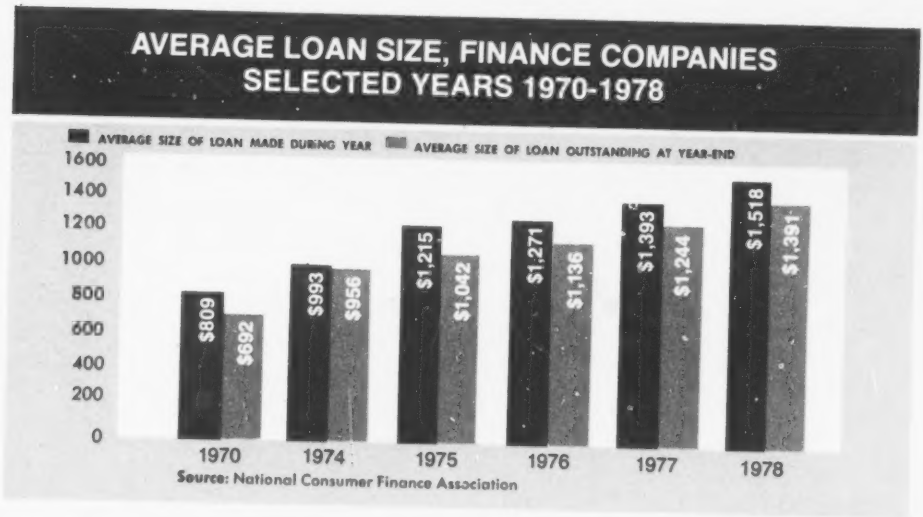
Approximately 45% of the consumer credit outstanding of finance companies is in the form of personal loans, some secured by goods, real estate, or other collateral, others unsecured, and probably a small amount in open-end loans. The finance company outstandings of personal loans at the end of 1979 as estimated by the Federal Reserve stood at $30.7 billion, up from $24.9 billion at the end of 1978.

In recent years as finance companies have entered second mortgage lending, loans secured by real estate have become a larger proportion of the cash loans made. In the Federal Reserve survey of June 1975, it was found that at the end of that month, finance companies had outstanding $1,946 million in loans secured by second mortgages (11.6% of a total of $16,715 million in personal loans). For the month of June 1975, loans secured by second mortgages totaled $134 million or 8% of the $1,592 million in personal loans made that month. From a limited sample of companies that reported to the annual NCFA surveys, 15% of the personal loans outstanding at year-end 1975 were secured by second mortgages, 16% at year-end 1976, 20% at year-end 1977, and 27% at year-end 1978. It may be estimated that well over $9.0 billion in personal loans of finance companies outstanding at year-end 1979 was secured by mortgages.

Size and Number of Loans and Contracts

According to surveys by the National Consumer Finance Association the average size personal loan made in 1978 was $1,518. As of year-end 1978, the personal loan accounts on the books of finance companies indicated an average amount outstanding of $1,391 per account (Chart 25). (This excludes interest charges which may at times appear on the face of the note.) If unearned charges are included, the average size loan outstanding approximated $1,736 at year-end 1978 which included both second mortgage and other personal loans.

CHART 25



A sample of 48 companies which operated over 10,000 offices and which provided sufficient detail in their responses to the NCFA annual questionnaire, showed 356,650 loans in the amount of nearly $3.8 billion secured by second mortgages and 7,168,796 other personal loans in the amount of $10.4 billion. This sample suggests that the average second mortgage loan outstanding at year-end 1978 was about $10,609 and the average for other personal loans was $1,451. Assuming a similar portfolio for the composite of companies that did not report sufficient detail, it may be estimated that finance companies had outstanding at year-end 1978, 622,000 second mortgage loans in the amount of $6.6 billion and 12.6 million other personal loans in the amount of $18.3 billion for the total personal loans reported by the Federal Reserve in the amount of $24.9 billion.

Reports by the Federal Reserve suggest that the average amount financed by finance company loans (excluding second mortgage loans) in 1979 was approximately $1,684. Excluded from this average figure are finance charges, but other charges such as credit insurance are included in most cases.

Two factors generally control the size of loans made by finance companies. The maximum loan permitted—the loan ceiling—sets an upper limit to the size of loan. In this case, State legislation is the determinant. For example, in Oklahoma, and other states where the Uniform Consumer Credit Code (UCCC) is in effect, the loan ceiling is $25,000 (or more when adjustment is made based on the consumer price index) and in California $10,000 while in New York the loan ceiling is $2,500. The maximum loan size has been increased in recent years in a number of states. In 1979 finance companies could make loans of $2,000 or over, by authority of either the consumer finance act or the industrial loan act, in all states except Vermont, Virginia, and West Virginia. Arkansas and the District of Columbia have no legislation which would permit consumer finance companies to cover expenses of making loans. A number of states have general usury laws or specific second mortgage laws permitting rates of charge sufficient to offer finance companies an opportunity to make larger installment loans.

The second factor controlling the size of loan stems from the interplay between the maximum authorized rates and the market for loans of various sizes. Finance companies generally try to offer a full loan service, that is, they try to serve consumers who need very small loans, as well as those who need other amounts up to the maximum size permitted by law. However, the yield on very small loans is considerably below the unit cost of operation. It is economically impossible for any institution to have a very large proportion of loans outstanding in the form of very small loans. Rising consumer prices, however, have reduced the consumer demand for these very small loans with the result that most finance companies are able to serve the needs of most of their customers and yet not have too high a proportion of the very small, loss-producing loans.

Automobile finance contracts on the average are much larger than personal loans. Federal Reserve data reveal that the average amount financed on new automobiles (excluding precomputed charges) increased from $5,590 in 1978 to $6,035 in 1979 (Chart 26). For used cars, the amount

CHART 26

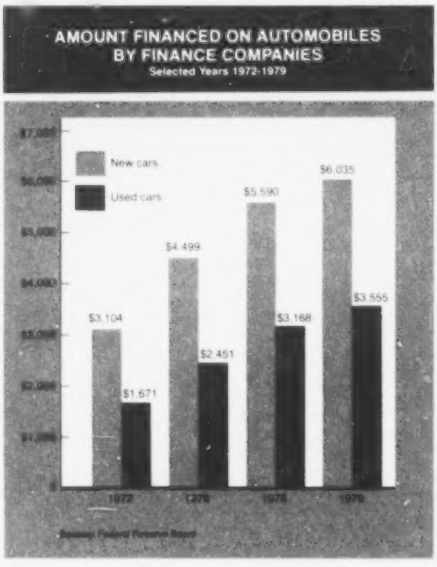


TABLE 25

FINANCE RATES, MATURITIES, AND AVERAGE AMOUNT FINANCED BY FINANCE COMPANIES, 1974-1979

	1974	1975	1976	1977	1978	1979
Average Finance Rates*						
Personal loans	20.7%	21.0%	21.0%	20.5%	20.5%	20.5%
Automobiles						
New	12.6%	13.1%	13.2%	13.1%	13.1%	13.5%
Used	17.2%	17.6%	17.6%	17.6%	17.6%	18.0%
Mobile homes	13.3%	13.6%	13.4%	13.6%	13.4%	13.6%
Other consumer goods	19.1%	19.8%	19.5%	19.2%	19.0%	19.1%
Average Maturities*						
Personal loans in months	34.8	36.3	37.6	42.9	45.8	50.5
Automobiles—percent						
New—Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% over 42 months	—	—	14.5	26.4	45.3	59.2
% 37 to 42 months	8.4**	23.6**	17.8	21.2	16.9	11.0
% 31 to 36 months	78.4	65.3	55.8	40.4	27.3	21.1
% 30 months or less	13.2	11.2	11.7	11.9	10.5	8.7
% balloon	0.2	0.1	—	—	—	—
Used—Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% over 36 months	—	—	3.6	8.7	21.9	40.8
% 31 to 36 months	52.9***	54.2***	53.3	57.3	43.5	43.5
% 25 to 30 months	29.2	31.1	29.9	23.6	19.7	8.5
% 24 months or less	17.8	14.7	13.2	10.4	14.9	7.2
% balloon	0.1	—	—	—	—	—
Mobile homes	121.2	121.0	123.3	126.9	130.8	133.4
Other consumer goods	21.1	21.1	22.2	23.6	25.8	25.4
Average Amount Financed*						
Personal loans	$1,162	$1,260	$1,384	$1,521	$1,572	$ 1,684
Mobile homes	$7,292	$7,686	$8,404	$9,174	$9,999	$11,617
Other consumer goods	$ 434	$ 464	$ 510	$ 563	$ 605	$ 600
Automobiles						
New	$3,615	$4,096	$4,499	$4,990	$5,590	$ 6,035
Used	$1,996	$2,249	$2,451	$2,720	$3,168	$ 3,555

Source: Federal Reserve Board.

Note: Parts may not add to totals due to rounding.

**Unweighted means of periodic sample data for each year. Average amount financed excludes precomputed finance charges.*

***Over 36 months.*

****Over 30 months.*

financed by finance companies increased from $3,168 in 1978 to $3,555 in 1979.

Rates of Charge

The maximum rates that consumer installment credit companies may charge are determined by each state. Rates of charge permitted differ for new and used automobile financing, other goods financing, for cash loans, and for open-end credit. The rates quoted in this section are annual percentage rates (APR), calculated in the manner prescribed by the Truth in Lending Law. For example, in New York a loan of $100 with a 30% APR repayable in 12 monthly installments would cost the borrower $16.88 in interest for the year.

Rates of charge for cash loans generally vary from 36% annually on the smallest to 15% on larger well secured loans. Federal Reserve data reveal that finance companies charged an overall average rate of 20.5% on loans made in 1979 (Table 25).

In general, large ticket items, such as automobiles which have a resale value, are subject to financing at lower rates. Exact details are not available, but the rates for financing automobiles probably vary between about 13% annual percentage rates to 24% or 30% for autos depending on age

and condition. According to Federal Reserve surveys, the average customer annual rate for new autos financed by finance companies in 1979 was 13.5% and for used autos 18.0%. Finance company rates for mobile homes averaged 13.6% in 1979.

Financing of consumer goods other than autos and mobile homes, items of less cost and usually not resaleable, probably costs between 15% and 30% at annual rates. The average finance rate charged by finance companies in 1979 was 19.1% for such goods.

Types of Rate Quotation

Various types of rate quotation were permitted (or required) by states prior to the Truth in Lending Act. Illustrative were two types of rate quotation on small loans. Both types lumped all finance charges into a single rate although additional charges were permitted (and regulated) in most states to cover the cost of insurance when the borrower desired such coverage. Both forms also permitted the borrower to repay his loan without penalty at any time before the contract matured.

The older form of rate quotation was the percent per month on the unpaid balance. New Mexico's small loan law, for example, is of this type as follows: 3% per month on the first $150 outstanding, 2½% per month on the amount between $150 and $300 outstanding, and 1% per month on the amount between $300 and $2,500 outstanding or an alternate 18% on the entire balance. Applying these rates, a $1,000 loan repaid in 12 equal monthly installments of $93.64 would cost the borrower $123.68 in interest or 22.10% APR.

Many states also adopted a form of rate quotation for small loans similar to that frequently used by commercial banks in making consumer installment loans. This form of quotation is referred to as add-on, that is, a certain number of dollars is added to the contract to be repaid. Connecticut's law is an example of this type—$17 per $100 per year up to $300, and $11 per year on the amount between $300 and $1,800. In this case, a loan of $1,000 repaid in 12 monthly installments of $94 each would cost the borrower $128.00 in interest or at the rate of 22.84% annually. For larger loans, the annual percentage rate is lower. For example, the finance charge for a loan of $3,500 in California, where larger loans are permitted, is $362.68, the total $3,862.68 repayable in 12 monthly installments of $321.89 each at an annual percentage rate of 18.61%.

Terms of Finance Contracts

The maximum length of the loan or sales finance contract is limited by the applicable legislation or regulation in each state. However, company policy may result in restricting maturities to a shorter term than that permitted by law.

Federal Reserve data reveal that in November 1979 new auto contracts written by major finance companies averaged 44.3 months, up from 43.4 months in November 1978. For the year 1979, 21.1% were for 31 to 36 months; 8.7% were for 30 months or less. However, the contracts written in excess of 36 months—70.2% in 1979 were up from 62.2% in 1978. Used car contracts in November 1979 had average maturities of 33.4 months, up from 32.8 months in November 1978. Of the used auto contracts in 1979, 84.3% were for over 30 months, 8.5% for 25 to 30 months, and 7.2% for 24 months or less.

Federal Reserve data indicate that the average maturity for cash loans made by large finance companies in 1979 approximated 50.5 months, up from 45.8 months in 1978. Mobile home loans averaged 133.4 months in 1979 and other goods financing 25.4 months.

Consumer Borrowers

Most of the information in this and the following sections was obtained from National Consumer Finance Association surveys of which the latest data available is for the year 1978.

Character of the borrower is the significant consideration in loans made by finance companies. Except in the case of the larger loans, security in the form of tangible personal property frequently has little market value. But to the borrower it may have considerable subjective value and his

TABLE 26

PERCENT DISTRIBUTION OF NUMBER OF LOANS EXTENDED BY SECURITY
SELECTED YEARS, 1969-1978*

	1969	1971	1974	1975	1978
Automobiles, household goods and other chattels	58.7	63.2	60.7	62.1	60.3
Unsecured notes	31.1	24.0	24.6	19.6	21.9
Endorsed and/or co-maker loans	2.5	2.0	2.0	4.4	1.5
Wage assignments	4.3	5.3	6.7	3.6	4.0
Real estate	0.3	1.0	1.4	3.1	4.2
Other considerations	3.1	4.5	4.6	7.2	8.1
Total	100.0	100.0	100.0	100.0	100.0

Source: National Consumer Finance Association.

Note: Parts may not add to totals due to rounding.

**Distribution calculated from a summation of available data from State supervisory reports of lending under consumer finance laws. Most states where consumer finance companies made large amounts of loans are included for each year. The total number of states included were: twenty-seven in 1969, twenty-eight in 1971, twenty-six in 1974, twenty-seven in 1976, and twenty-one in 1978.*

TABLE 27

DISTRIBUTION OF THE NUMBER OF LOANS EXTENDED BY PURPOSE
SELECTED YEARS, 1964-1977

	(In percent)					
Purpose	1964	1966	1971	1973	1975	1977
To consolidate existing bills	46	44	46	33	31	28
Travel, vacation, education expenses	8	8	7	6	7	8
Automobile purchase or repair	11	12	10	14	14	13
Home furnishings and appliances	3	3	3	4	4	5
Household repairs	3	3	4	4	5	7
All other purposes	29	30	30	39	39	39
Total	100	100	100	100	100	100

Source: National Consumer Finance Association survey data for 1964 are estimated from companies which operated 3,839 offices, for 1966 from companies which operated 3,434 offices, for 1971 from companies which operated 4,389 offices, for 1973 from companies that operated 5,959 offices, for 1975 from companies that operated 4,863 offices, and for 1977 from companies that operated 5,114 offices.

willingness to use it as security establishes evidence of his good faith. Reports of State supervisory authorities show that consumer finance companies seldom take possession of security on small loans. The proportion of unsecured loans, that is, loans based on the borrower's signature, in 1969 was 31% and in 1978 was about 22% as larger loans were increasingly made by finance companies (Table 26). Since these estimates are derived from the reports on consumer finance laws, the loans of finance companies secured by real estate are understated. Statistics are not generally available on second mortgage lending.

Consumers use the money borrowed from finance institutions and industrial banks to consolidate and refinance existing obligations (Table 27). They also borrow for various current purposes as well as to purchase automobiles and other durables. Still other consumers borrow so that they will not need to disturb equities in insurance, in homes, and in other assets. They borrow to pay for travel and vacations, to send children to educational institutions, and to finance additional technical or professional training.

The "average" borrower from a finance company is a skilled or semiskilled worker, has average income of over

$12,000 a year, has acquired some material goods, has at least some liquid assets at his disposal, is most frequently married, under 45 years of age and frequently owns his own home.

In 1978, the percentage of borrowers from finance companies was significantly greater in the income brackets $5,000 to $11,999 than were the percentage of households in these brackets, but much smaller in the less-than-$5,000 group. For the $12,000-and-over income group, the percentages were the same (Table 28). Through 34 years of age the percentage of borrowers from finance companies was well above those for all households, nearly equal in the 35 to 44 and the 45 to 54 year groups, but less at age 55 and over.

Percent distributions of the income level, age and occupation of borrowers are shown in Table 29. In 1978, 17.3% had incomes of between $6,000 and $9,000, 18.7% had incomes of between $9,000 and $12,000 and 59.1% had incomes of $12,000 and over, while 4.9% had incomes of $6,000 or less.

Of borrowers from finance companies in 1978, 40% were craftsmen, foremen and kindred workers, 22% were operatives, laborers and kindred workers, 14% were service workers including government civilian and military personnel, 8% were clerical and kindred workers, 6% were proprietors, managers and office workers, and the remaining 10% were from various other occupation groups.

Assets of Finance Companies

The National Consumer Finance Association in its annual survey of its members and other large nonmember companies has included questions concerning assets and liabilities. For 1978, data were obtained from 184 companies—both large and small—which operated 15,973 offices throughout the United States. These com-

TABLE 28

PERCENT DISTRIBUTION OF BORROWERS FROM FINANCE COMPANIES AND ALL HOUSEHOLDS, BY INCOME AND AGE GROUPS, 1978

	Borrowers from Finance Companies Percent of:		All Households Percent of:	
	Number of loans	Amount of loans	Number of households	Amount household income*
By Annual Income				
Less than $5,000	1.9**	1.1	14.6	2.7
$5,000 to $8,999	19.9**	13.7	15.0	3.3
$9,000 to $11,999	18.4	16.0	10.6	2.6
$12,000 and over	59.8	69.2	59.8	91.4
Total	100.0	100.0	100.0	100.0
By Age				
Less than 25 years	18.8	12.1	8.2	5.6
25 to 34 years	37.7	35.5	22.0	21.9
35 to 44 years	18.2	22.5	17.2	21.4
45 to 54 years	15.5	19.6	16.3	21.8
55 to 64 years	8.3	9.2	15.9	17.4
65 years and over	1.5	1.1	20.4	11.9
Total	100.0	100.0	100.0	100.0
Number in millions	15.1	—	77.3	—
Amount in billions of dollars	—	$ 26.2	—	$1,371.1

Source: NCFA Surveys and Bureau of the Census.

Note: Parts may not add to totals due to rounding.

*Amount of income by income levels is NCFA estimate.

**$4,800 or less in income in the first group and $4,800 to $9,000 in the second group.

panies had total assets of $83.4 billion at the end of 1978 including $76.7 billion in accounts and notes receivable of which $20.0 billion was outstanding in personal loans (Table 30). A total of 157 consumer finance companies, defined as those having over 50% of their receivables in cash loans, responded to the NCFA questionnaire. These companies had assets of $23.8 billion including personal loans of $16.4 billion.

Sources of Funds of Consumer Finance Companies

Because of the declining numbers of the independent sales finance companies (those companies with over half of their receivables in sales finance paper), the percentages of assets, liabilities and income of the sales finance companies have severe limitations for use as averages for comparative purposes. Thus, data on the

TABLE 29

PERCENT DISTRIBUTION OF THE NUMBER OF LOANS MADE BY BORROWER CHARACTERISTICS, SELECTED YEARS, 1970-1978

	1970	1975	1976	1977	1978
By Monthly Income of Borrower					
$300 or less	10.5	2.2	3.0	2.4	0.7
$300.01 to $500	27.9	10.0	12.3	10.6	4.2
$500.01 to $750	32.7	28.9	24.3	20.3	17.3
$750.01 to $1,000	17.7	22.0	23.2	18.4	18.7
Over $1,000	11.2	36.9	37.2	48.3	59.1
Total	100.0	100.0	100.0	100.0	100.0
By Age of Borrower					
Less than 25 years	14.1	18.0	17.7	17.2	18.8
25 to 34 years	31.3	28.8	27.8	34.2	37.6
35 to 44 years	24.6	23.5	23.0	21.4	18.3
45 to 54 years	19.6	23.1	24.4	16.6	15.5
55 to 64 years	9.3	6.0	6.6	9.0	8.3
65 years and over	1.1	0.6	0.5	1.6	1.5
Total	100.0	100.0	100.0	100.0	100.0
By Occupation of Borrower					
Proprietors, managers and office workers, excluding farm	5.5	na	10.1	na	6.2
Craftsmen, foremen and kindred workers	42.8	na	34.5	na	40.4
Operatives, laborers and kindred workers, including farm and mine	19.6	na	22.9	na	21.8
Clerical and kindred workers	6.1	na	7.5	na	7.8
Sales persons	2.8	na	2.6	na	2.5
School teachers	1.3	na	1.2	na	1.3
Professional and semi-professional workers, excluding teachers	2.0	na	1.6	na	1.7
Service workers, including government civilian and military personnel	14.2	na	14.5	na	13.8
Unemployed, occupations not reported and miscellaneous	5.7	na	5.1	na	4.5
Total	100.0	na	100.0	na	100.0

Source: *Annual Research Report on Finance Companies* for the respective years from data obtained by NCFA surveys.

Note: Parts may not add to totals due to rounding.

na: Not available.

TABLE 30

ASSETS OF COMPANIES RESPONDING TO NCFA QUESTIONNAIRE
DECEMBER 31, 1978

	Consumer Finance Companies	Sales Finance Companies	All Reporting Companies
	(In millions of dollars)		
Personal loans	16,372	3,606	19,978
Retail automobile paper	364	22,284	22,648
Other consumer receivables	2,661	4,931	7,592
Other accounts and notes receivable	1,235	25,288	26,523
Subtotal	20,632	56,109	76,741
Deduct reserves for unearned income	3,426	5,240	8,666
Subtotal	17,206	50,869	68,075
Deduct reserves for losses	583	758	1,341
Subtotal	16,623	50,111	66,734
Cash and bank balances	440	1,263	1,703
Other assets	6,697	8,314	15,011
Total	23,760	59,688	83,448
		(Number)	
Number of companies	157	27	184
Number of offices	12,011	3,962	15,973

Source: National Consumer Finance Association.

Note: Parts may not add to totals due to rounding.

TABLE 31

PERCENTAGE DISTRIBUTION OF LIABILITIES, CAPITAL AND SURPLUS
FOR CONSUMER FINANCE COMPANIES RESPONDING TO NCFA QUESTIONNAIRE
SELECTED YEARS, DECEMBER 31, 1970-1978

Balance sheet item	1970	1975	1976	1977	1978
Notes payable to banks	14.3	11.5	9.2	7.9	7.4
Commercial paper and other short-term debt	19.7	14.5	14.7	13.9	14.6
Deposit liabilities and thrift certificates (short-term)	1.6	4.6	4.5	4.3	3.5
Long-term debt (excluding subordinated debentures)	31.3	33.1	34.6	37.1	33.8
Subordinated debentures and notes	7.9	7.5	7.3	7.7	6.4
Other liabilities	4.3	7.3	8.3	8.7	16.0
Capital and surplus	20.9	21.5	21.4	20.3	18.3
Total	100.0	100.0	100.0	100.0	100.0

Source: National Consumer Finance Association.

Note: Parts may not add to totals due to rounding.

liabilities, capital and surplus, and income, of consumer finance companies only are shown in Tables 31 and 32.

Finance companies take on all of the common forms of business organization, including the individual proprietorship, the partnership, and the corporate form, the latter of which predominates. Sources of funds have been the same generally as those of similar privately owned organizations in other fields of endeavor. Thus, finance companies have competed with all other lines of business in the funds markets. Only in those states where industrial banking companies are chartered do finance company subsidiaries compete in the market for consumer deposits which are the major sources of funds for savings

TABLE 32

SOURCES AND USES OF GROSS INCOME IN 1978 OF COMPANIES RESPONDING TO NCFA QUESTIONNAIRE

	Consumer Finance Companies	Sales Finance Companies	All Reporting Companies
	(In millions of dollars)		
Sources of Gross Income			
Accounts receivable	3,055	5,314	8,369
Other	876	927	1,804
Total	3,931	6,242	10,173
Uses of Gross Income			
Expenses other than cost of borrowed funds			
Wages and salaries	739	708	1,447
Advertising and publicity	62	29	91
Net losses and reserves	350	311	661
Other	903	834	1,737
Subtotal	2,053	1,882	3,936
Cost of borrowed funds	1,105	3,433	4,538
Federal income taxes	235	369	604
Net income	538	558	1,096
Total	3,931	6,242	10,173

Source: National Consumer Finance Association.

Note: Parts may not add to totals due to rounding. See Table 30 for number of offices covered in this report.

and loan associations and credit unions.

As the demand for loans has increased, finance companies have tapped all available sources. Retained earnings and sales of common stock, stated as composites for all finance companies, generally kept the equity proportion at the same level for a period of at least 15 years. Comparison of the data from the Federal Reserve Surveys of Finance Companies for 1960, 1965, 1970 and 1975 show that net worth (capital, surplus and undivided profits) approximated 15% to 16% of funds employed as reported in each of these surveys.

Data for consumer finance companies from the annual NCFA surveys show that the major sources of funds (shown as a percent of liabilities and capital combined) have been long-term debt (excluding subordinated debentures), which amounted to 33.8% at the end of 1978. Other sources of funds were: commercial paper of 14.6%, notes payable to banks of 7.4%, subordinated debentures of 6.4%, thrift certificates of 3.5%, and capital and surplus of 18.3%. (Liabilities, such as accounts payable and a growing amount of "downstream financing" from parent companies, amounted to 16.0% at the end of 1978.) Compared to the early 1970's proportionately more financing in 1978 was coming from long-term senior debt, somewhat less from subordinated debt, and much less from commercial paper and bank loans. Subsidiaries of bankholding companies and other holding companies which receive much of their financing from the parent company frequently report this type of financing as a part of "other liabilities."

Income and Expenses of Consumer Finance Companies

The source of gross income of consumer finance companies is no longer solely from accounts receivable. This has come about as consumer finance companies, those having over half of their receivables in cash installment loans, have diversified into other activities. Some of these companies have expanded into financing durable goods and into commer-

cial financing, and other companies have purchased, or merged with, retail outlets. Some finance companies, through subsidiaries, have entered or expanded insurance operations—not only in writing credit life insurance but also in writing other forms of insurance. In 1978, 22.3% of the gross income of consumer finance companies came from sources other than accounts receivables (Table 33). From total gross income, 18.8% was used for wages and salaries, 1.6% for advertising and publicity, 8.9% for losses and loss reserves, and 22.9% for other operating expenses. After paying out 28.1% of gross income for the cost of borrowed funds, the remaining 19.7% of gross income was divided between Federal income taxes (6.0%) and return on funds invested by the owners (13.7%).

Cost of Funds and Rate of Return

A summary of the cost of borrowing and rate of return on equity for companies which reported such information in the NCFA surveys for 1977 and 1978 is shown in Tables 34 and 35. In general, the larger companies had a higher return on equity and a lower cost of borrowing than the smaller companies. The cost of borrowing was higher in 1978 than in 1977 as was the return on equity.

For a sample of 157 consumer finance companies, the mean rate of return on invested capital, defined as net income (after payment of income taxes) and expressed as a percent of year-end net worth (capital, surplus and retained earnings), for consumer finance companies in 1978 was 12.4%, up from 11.7% in 1977 (Table 36). By comparison, the mean rate of return on invested capital of manufacturing corporations in the U.S. was 15.0% in 1978 up from 14.2% in 1977, as reported by the Federal Trade Commission.

Using total assets as a base, the net income after deduction of Federal income taxes, but before deduction of cost of borrowed funds, was 6.91% for consumer finance companies in 1978 up from 6.61% in 1977 as the percentage attributable to cost of borrowed funds increased and that attributable to net income after taxes decreased. The limited data available from

TABLE 33

GROSS INCOME OF CONSUMER FINANCE COMPANIES—
SOURCES AND USES, SELECTED YEARS, 1970-1978

(Percent of gross income)

	1970	1975	1976	1977	1978
Sources of Gross Income					
Accounts receivable	79.8	81.0	78.7	76.9	77.7
Other	20.3	19.0	21.3	23.1	22.3
Total	100.0	100.0	100.0	100.0	100.0
Uses of Gross Income					
Expenses other than cost of borrowed funds					
Wages and salaries	24.7	21.7	20.3	20.1	18.8
Advertising and publicity	2.3	1.2	1.4	1.6	1.6
Net losses and reserves	8.6	13.9	11.8	9.6	8.9
Other	19.4	22.5	23.1	24.7	22.9
Subtotal	55.0	59.3	56.6	56.0	52.2
Cost of borrowed funds	27.1	26.5	24.7	24.5	28.1
Federal income taxes	5.8	3.9	5.6	5.8	6.0
Net income	12.1	10.3	13.1	13.7	13.7
Total	100.0	100.0	100.0	100.0	100.0

Source: National Consumer Finance Association.
Note: Parts may not add to totals due to rounding.

TABLE 34

ESTIMATED OVERALL COST OF BORROWING IN 1978 AND 1977
FINANCE COMPANIES BY SIZE OF COMPANY

	(In percent)						(Number of companies)	
	1978			1977			1978	1977
	High	Low	Median	High	Low	Median		
Companies with Consumer Credit Outstanding of:								
$1 billion and over	9.17%	7.33%	7.97%	—	—	—	10	—
$500 million and less than $1 billion	8.86%	7.73%	8.31%	7.91%	6.03%	7.11%	6	16*
$150 million and less than $500 million	9.12%	6.90%	8.16%	8.20%	6.40%	7.59%	11	9
$50 million and less than $150 million	9.75%	6.96%	8.98%	8.37%	5.90%	7.40%	16	15
$10 million and less than $50 million	14.00%	6.00%	8.78%	12.00%	5.54%	7.45%	18	22
$1 million and less than $10 million	13.00%	6.51%	9.26%	11.75%	6.00%	8.60%	33	33
Less than $1 million	16.00%	6.75%	9.75%	13.02%	6.50%	8.50%	23	27
Total	16.00%	6.00%	8.95%	13.02%	5.54%	7.90%	117	1?2

Source: National Consumer Finance Association.

*$500 million and over in 1977.

the NCFA survey suggest that for sales finance companies the average was 6.7% in 1978 and 5.9% in 1977.

Regulation of Finance Companies

All of the Federal and state statutes and regulations affecting corporations, partnerships and proprietorships generally apply to such organizations which provide consumer installment credit. In addition, finance companies are subject to special statutory provisions governing their operations by each of the states in which they operate, and the District of Columbia and Puerto Rico.

Some statutes which deal with retail sales finance require that the contract disclose certain information pertaining to the transaction but do not set maximum rates. Other statutes deal with goods only, others deal with goods and services, some deal only with motor vehicle sales finance arrangements. Where the statute deals with motor vehicle sales there is generally a classification of cars by model years.

In the case of cash loans, Arkansas has a constitutional limitation of 10% and the District of Columbia's small loan law has a loan ceiling limit of $200 and 12% annual percentage limit. In neither case could responsible capital by finance companies be attracted for cash lending.

In most states, the supervisory authority is a division of the Banking Department which is frequently empowered to supplement the statutes by promulgating rules and regulations. In other states, similar powers rest with other agencies or departments, for example, in Ohio with the Director of Commerce and in California with the Commissioner of Corporations.

State laws require cash loan licensees to report on their operations annually to the State supervisory authorities. In practi-

TABLE 35

ESTIMATED RETURN ON EQUITY IN 1978 AND 1977
FINANCE COMPANIES BY SIZE OF COMPANY

(In percent)

	1978			1977			(Number of companies) 1978	1977
	High	Low	Median	High	Low	Median		
Companies with Consumer Credit Outstanding of:								
$1 billion and over	14.63%	6.18%	11.70%	—	—	—	9	—
$500 million and less than $1 billion	21.93%	10.28%	14.90%	18.53%	5.50%	12.20%	6	15*
$150 million and less than $500 million	17.80%	6.00%	11.13%	15.40%	4.70%	10.98%	11	8
$50 million and less than $150 million	22.20%	3.01%	13.80%	23.58%	5.90%	13.01%	16	16
$10 million and less than $50 million	29.50%	3.00%	10.05%	25.50%	6.10%	10.53%	17	20
$1 million and less than $10 million	22.00%	Loss	8.09%	27.41%	0.57%	8.40%	29	28
Less than $1 million	32.77%	Loss	3.91%	31.17%	Loss	8.60%	14	17
Total	32.77%	Loss	10.40%	31.17%	Loss	9.25%	102	104

Source: National Consumer Finance Association.

**$500 million and over in 1977.*

TABLE 36

RELATION OF INCOME TO OUTSTANDINGS, ASSETS AND EQUITY FOR CONSUMER FINANCE COMPANIES, SELECTED YEARS, 1970-1978

	1970	1974	1975	1976	1977	1978
Finance charges collected as a percent of year-end net outstandings	19.3%	19.3%	20.0%	19.3%	18.5%	17.8%
Cost of borrowed funds and net income as a percent of total assets at year-end						
Total	6.98%	7.20%	6.44%	6.59%	6.61%	6.91%
Cost of borrowed funds	4.82%	5.49%	4.63%	4.30%	4.24%	4.65%
Net income after taxes	2.16%	1.71%	1.81%	2.29%	2.37%	2.26%
Net income after taxes as a percent of capital, surplus and undivided profits	10.3%	8.8%	8.4%	10.7%	11.7%	12.4%

Source: National Consumer Finance Association.

cally all states, annual examinations by these authorities are required by law and examinations at other times are permitted by law. The costs of such examinations are in most states borne by the licensees—these costs are in addition to the annual license fee for each operating office.

While larger loans are made under various statutes, including second mortgage laws, the majority of the installment loans of consumer finance companies are made under provisions of laws derived from and containing the essential elements, though not some of the specific provisions, of the "Uniform Small Loan Law" originally promulgated by the Russell Sage Foundation, or in terms of the "Model Consumer Finance Act" drawn up by the National Consumer Finance Association in 1948. The terms "Uniform Small Loan Law" and "Model Consumer Finance Act" have come to be used interchangeably. Regulatory features consist of provisions with respect to the following: 1) licensing by a State supervisory official, 2) supervision by a State supervisory official having powers to enforce and interpret the law, 3) authorization of adequate charges to permit a complete service, 4) limitation of charges, 5) regulation of contract provisions, 6) disclosure of terms and status of loan transactions, 7) prohibition of evasions and subterfuges, and 8) penalties and enforcement powers. In over half of the states, consumer finance companies and/or industrial banks may also make installment loans under the provisions of other laws, commonly known as industrial loan laws, consumer discount acts or installment loan acts, and in a few states under general interest laws.

Industrial Banking Companies

The generic term "industrial banking companies" is used to include those institutions which are chartered to extend installment credit to consumers and to accept some form of savings deposit or sell investment certificates or certificates of deposit as at least a partial means of financing the operation. This definition excludes finance companies which are permitted by state law to issue certificates of investment under general securities laws of the states. Industrial banking companies may generally participate in those services presently reserved for depository institutions, such as entry in Automated Clearing Houses and the direct deposit program of the U.S. Treasury.

Industrial banking companies operate under various names depending on the particular laws of the states in which they operate. In 1977, twenty-three states had statutory provisions for the chartering and/or operation of industrial banking companies. Several industrial banking companies are in operation and the statutes would permit additional charters in twelve states, as follows (with the name the institution generally operates under in parentheses): California (industrial loan company or Morris Plan); Colorado (industrial bank); Hawaii (industrial loan company); Iowa (industrial loan company); Kentucky (industrial loan company); Minnesota (industrial loan company); Nebraska (industrial loan and investment company); Nevada (thrift company); Rhode Island (loan and investment company); Tennessee (industrial loan and thrift company); Utah (industrial loan company); and West Virginia (industrial bank or industrial loan company).

In Indiana, Morris Plan companies are in operation but by statute no more charters will be issued; none is in operation in Arizona, Connecticut, Massachusetts, New Hampshire, North Carolina, Michigan or Virginia (and no charters will be issued in the latter two states). One industrial banking company is in operation in Kansas and one in Missouri. In the State of Washington, the sale of investment certificates is discouraged and none are sold so that state's Industrial Loan Company Law provides essentially a vehicle for the issuance of loan licenses.

Published statistical data are very limited (if available at all) in most of the states, especially regarding the types of liabilities, that is, passbook savings, investment certificates and other borrowing. Thus, data for the United States are not available.

Uniform Consumer Credit Code

As with other consumer credit institutions, finance companies and industrial banking companies are subject to the Uniform Consumer Credit Code (UCCC) in those states where it is in effect—Colorado, Idaho, Indiana, Iowa, Kansas, Maine, Oklahoma, Utah, and Wyoming. Other states, such as Louisiana, Alabama, and West Virginia, have passed general statutes containing various elements of the UCCC, while the State of Wisconsin in 1972 passed a statute which contained some elements of the UCCC.

With the entry of each institution into the consumer credit business—finance companies, industrial banking companies, commercial banks, credit unions, retailers, savings and loan associations, and mutual savings banks—the laws applicable to each institution were amended. In the absence of previous legislation new laws were passed to regulate the consumer credit aspects of these businesses. As a result, most states have a number of laws which vary among themselves as to rates, supervision, and other legal requirements.

Observing these divergencies in legislation, the National Conference of Commissioners on Uniform State Laws prepared a Uniform Consumer Credit Code (UCCC), which was approved by the American Bar Association in 1968. Subsequent to the passage of the 1968 version of the UCCC in several states, the Commissioners studied certain improvements and a revised version, UCCC (1974), was approved by the Commissioners in August 1974.

The Uniform Consumer Credit Code provides for one overall regulatory law to replace all existing state consumer credit laws. Consumer credit as defined by the UCCC is loan and sale credit to individuals for personal, family, household, or agricultural purposes including the purchase of a home or farm when there is a charge for the credit or the credit is repayable in installments. The UCCC would regulate all consumer credit as defined for amounts up to $25,000, with provisions for increasing the ceiling based on increases in the Consumer Price Index.

The UCCC would replace all consumer finance and installment loan laws, sales finance and revolving credit laws, usury laws, and laws regulating insurance premium financing, home repair financing and second mortgages on homes.

The UCCC would fix the same maximum rates for all types of consumer credit grantors. In summary, as specified in the UCCC (1974), the maximum rates for installment credit (loans and sales) are 36% per year on the first $300, 21% per year on the next $700, and 15% per year on the remainder, with the provision that each step would be increased based on changes in the Consumer Price Index. When these graduated rates yield less than 18% per year, the maximum is 18% per year.

The UCCC has significant consumer protection provisions as to disclosure of contract terms, advertising, balloon payments, security, garnishment and other creditors' collection remedies, unconscionable or fraudulent conduct, "cooling-off" period for door-to-door sales, referral sales, rescission of contracts secured by the debtor's home, and official surveillance and enforcement by an Administrator. There are heavy civil and criminal penalties specified for violations of the UCCC.

The revisions contained in the UCCC (1974) reflect changes in response to many of the recommendations made by the National Commission on Consumer Finance established by the Consumer Credit Protection Act. The revised UCCC substantially implements the National Commission's recommendations as to buyers' defenses in installment and credit card sales and in sale-related loans, deficiency judgments, service of process, limitations on garnishment, debt collection practices, door-to-door sales, and cosigner agreements.

Consumer Credit Protection Laws

Finance companies and industrial banks like all other creditors are subject to the Federal Consumer Credit Protection Act and other laws which mandate special procedures concerning credit or information about consumer borrowers.

Federal protection of consumer borrowing began in 1968 with the passage of the Consumer Credit Protection Act. Title I of this legislation, the Truth in Lending Act, mandated that creditors provide disclosure of credit terms to promote the informed use of credit by consumers. It also required the Board of Governors of the Federal Reserve System to prescribe regulations to carry out the purposes of the act. Specified Federal agencies administer the Board's regulations. Pursuant to congressional instructions, the Board issued Regulation Z, which provided, among other things, for disclosure of the actual "finance charge" for credit and of the effective "annual percentage rate" to be calculated by using standardized methods.

Since this initial action, the Congress has amended the Truth in Lending Act repeatedly and also has enacted new consumer credit laws, as follows: Fair Credit Reporting Act (1970), Credit Card Amendments to Truth in Lending (1970), Technical Amendments to Truth in Lending (1974), Fair Credit Billing Act (1974), Equal Credit Opportunity Act (1974), Federal Trade Commission Improvement Act (1975), Home Mortgage Disclosure Act (1975), Equal Credit Opportunity Act Amendments (1976), Consumer Leasing Act (1976), Fair Debt Collection Practices Act (1977), Community Reinvestment Act (1977), and Electronic Funds Transfer Act (1978).

The administrative structure for many of these laws parallels that of the Truth in Lending Act. The Congress states its general intent and instructs the Board to issue regulations that apply to institutions granting consumer credit. Thereafter the Federal agencies with primary supervisory responsibility for each class of creditors administer the Board's regulations for those creditors.

Report of the National Commission on Consumer Finance

The Consumer Credit Protection Act of 1968 also created a National Commission on Consumer Finance, whose duty was to study and appraise the functioning and structure of the consumer finance industry, as well as consumer credit generally. The Commission made its report to the President and Congress on December 31, 1972.

The Commission concluded that a truly competitive consumer credit market, with adequate disclosure of relevant facts to an informed consuming public, together with legislation and regulation to eliminate excesses, will foster economic growth and serve to optimize benefits to the consumer. As to excesses in the market place, the Report recommended significant additions to the protection of consumers in the fields of creditors' remedies and collection practices, urging restrictions on remedies such as garnishment, repossession and wage assignment, and recommending abolition of the holder in due course doctrine, confessions of judgment, and harassing tactics in debt collections.

As to adequate disclosure of relevant facts, the Report urged enhanced supervision and enforcement of the Federal Truth in Lending Act and specified actions to make the disclosure features of Truth in Lending more effective.

The Commission also favored making federally chartered financial institutions subject to State as well as Federal examination for compliance with state laws governing the terms and conditions of consumer credit extensions. In addition, it recommended expanded administrative authority over all classes of creditors.

The Commission's research studies contain the empirical data, information and analyses relied upon by the Commission. These six technical studies are as important as the Report itself and provide some data not available elsewhere.

One of the research volumes by the National Commission on Consumer Finance released early in 1974 (Technical Studies, Volume III), contains many tables of information on installment credit by states at mid-1971—the only attempt at a comprehensive state-by-state compilation.

Electronic Fund Transfer Systems

The development of Electronic Fund Transfer Systems (EFTS) has hastened an

evolution in the payments system in which the commercial banking system is no longer the exclusive vendor of the means of money transfer. A growing number of institutions and industries outside of banking are offering money or near-money deposit arrangements and providing money transfer services.

The major contenders for money transfer powers have been the nonbank depository institutions—savings and loan associations, mutual savings banks, credit unions and industrial banks. Nondepository consumer finance companies, credit card companies, retailers, insurance companies, and new institutions (such as money market funds) are displaying increased interest in the direct transfer of funds. Technology was the instigator and legislation changing the U.S. payments system is in the developmental stage whereby commercial banks may be bypassed in funds transfers.

Over two decades, the operations of financial institutions became increasingly computerized, but in ways that did not directly affect how ordinary Americans transact their financial affairs. In the last few years, however, the consumer began to be offered computerized services supplementing checks and currency. Many depository institutions now offer automated deposit and withdrawal services; social security recipients and some employees may have their checks deposited electronically in their accounts; and some consumers are able to pay bills without use of cash or checks. These services are being facilitated by the technology that has become known as electronic fund transfers (EFT).

To learn more about EFT and to obtain a variety of views on the appropriate public policy toward EFT, the Congress established the National Commission on Electronic Fund Transfers to study and report, with recommendations, on all aspects of EFT with which the Congress should be concerned.

The Final Report of the National Commission on Electronic Fund Transfers which was released on October 28, 1977, is divided into eight parts: The Commission and Its Work; The Consumer and EFT; Developmental Issues in EFT; Technology and EFT; Roles of the Federal Government in EFT; and International Developments in EFT.

Part 7 offers the separate statements of various Commissioners on various issues. Part 8 provides a series of nine appendixes containing the text of the Act which established the Commission, the votes of Commissioners on certain recommendations, a description of the payments system in the United States, and several descriptive appendixes regarding the Commission's work.

The Report reflects the Commission's recognition that EFT is in an evolutionary process and that only the first steps have been taken in its potential development. The Commission adopted the principle that the growth of EFT should take place in a competitive environment, that EFT should be viewed as an alternative means to provide payments services and that all evidence suggests that today's paper-based system will remain in operation indefinitely. The Commission also accepted the thesis that the future of EFT is inextricably tied to consumer acceptance.

Essentially the Commission viewed EFT only within the existing institutional framework. It did not attempt to offer alternative scenarios for possible development in the future. By this approach, finance companies which offer only credit and have no deposit capability, were considered in relation to credit markets and information transfer services but not fund transfer services. On the other hand, industrial banking companies, which offer passbook or other deposit-like consumer services, would be included among the thrift institutions and subject to the conclusions and recommendations applicable to them.

The discussion, conclusions and recommendations in many instances are not definitive reflecting wide differences in the viewpoints of commercial bankers, thrift institutions, retailers, regulators of depository institutions and consumer representatives. Though the report is not a revolutionary document, it does in some instances point to some of the potential developments in the future, which are of concern to finance company managements.

1980 AND BEYOND

Projections of the future course of the economy are hazardous at best. They necessarily depend upon historical experience and the forecaster's ability to distinguish indicators which suggest future developments. In an economic environment characterized by historically high rates of interest, unstable financial markets, problems of energy sources, and inflation, past experience can provide only a very limited guide to prospective behavior.

The collapse of financial markets in early 1980 reflects a long-term problem accentuated by the petroleum price situation and other international developments. In retrospect, the present inflation has been developing since the mid-1960's. The consumer price index (CPI-U), though an inadequate indicator of short-term price movements, is useful as a long-term trend indicator. Average figures of the CPI-U for each year show a decline in only one year since 1950—by 0.4% in 1955. The first half of the 1960's showed increases of 1% to 2%, the second half of the 1960's increases of 3% to 6%. The first half of the 1970's showed increases of 3% to 11%. In 1976 the increase was 5.8%, in 1977 it was 6.5%, in 1978 it was 7.7%, and in 1979 it was 11.3%.

Since the mid-1960's the idea of continuously increasing prices has been built into the economic decisions of government, business, and consumers alike. The basic problem is to find a way of wringing out the inflationary psychology that is built into economic decision making. There must be a return to the basic economic principle that human wants are insatiable and that whether it be government, business or consumers there is a need to set priorities since all wants cannot be satisfied.

A momentous decision and thorough shock treatment designed to raise questions in the minds of all decision makers is essential in such a crisis.

The President in his speech of March 14 laid out a program which if carried through could be the decisive shock treatment. The five points he made were: (1) Increased discipline in the federal budget; (2) Restraints on credit; (3) Wage and price actions; (4) Greater energy conservation; (5) Economic structural changes to encourage productivity, savings, research and development.

What is accomplished will depend on further actions and reactions. The increased discipline in the federal budget depends upon a specific program from the President and legislation by the Congress. The wage and price actions reflect a wage and price council which came up with decisions that reflect a continuation of the expected price and wage spiral. The question of adding a tax to imported oil may have some severe economic problems in terms of attempting to conserve energy. Finally, the economic structural changes

can come about only after stability has been returned to the financial markets and after there is definite evidence that the inflationary psychology has been removed from economic decisions.

A long overdue bill to modernize the legal framework for the U.S. financial system appeared to be moving in Congress—a bill that accents competition under a more disciplined monetary mechanism to help stabilize the economy seemingly out of control. The bill would eliminate the controlled rate paid on savings accounts over a future period and eliminate a regulation which has required an inverse pyramid of regulations each year so that depository institutions could avoid the original intent of limiting the rate paid on savings accounts. The bill would seek to demolish state usury ceilings which sponsors of the bill saw as artificial barriers to competition. Credit union lending rates would be permitted to rise. The federal deposit insurance limit would be lifted from $40,000 to $100,000. The bill would make changes in truth in lending law provisions which have been a nightmare for lenders and impossible for consumers to understand. The bill would also provide for a basis for more effective monetary policy in establishing a universal reserve structure.

Given these in-progress possible actions, the usual economic projections for the ensuing year are conspicuous by their absence. Thus, broad ranges such as have been presented by the Board of Governors of the Federal Reserve System are in order. For example, it seems likely that gross national product (GNP) will increase between 7.5% and 11% in 1980. Real GNP (expressed in 1972 dollars) could change by (−)2.5% to (+)0.5% and by implication prices would rise by 9% to 11%. The unemployment rate could rise to between 6.75% and 8%. The consumer price index could increase 8.75% to 12%. A downturn in activity is likely sometime in 1980. Production cutbacks in the auto sector and a drop in residential construction have occurred. A rising oil import bill continues to act as a drag on aggregate demand. With these depressants on employment and income growth, consumer spending is expected to slacken. Tighter consumer and mortgage credit conditions should discourage spending and encourage some recovery during 1980 in the abnormally low personal saving rate. Weakening of consumer demand would also tend to dampen plant and equipment spending as softer markets tend to deter businesses from outlays that would add to productive capacity.

Detailed economic projections and credit market activity are highly unpredictable for 1980—and well into 1981. Only when there is evidence of a reverse of the inflationary spiral will economic projections take on more substance.

The productive potential of the U.S. economy over the long run will be realized only if there is a continuing review of fiscal and monetary policies as well as a reevaluation of our social and economic priorities in such fields as energy use, alternative uses for the labor force, and alternatives as between government regulation, and private business and consumer decisions. Deferred income in the form of transfer payments, such as social security and government retirement benefits, and unemployment benefits have become an increasing proportion of personal income, and productivity increases by those currently employed must be achieved if we are to moderate inflation over the long run. At the same time, the attitudes of government policy makers, businessmen and consumers must be changed from anticipation of price increases to dependence on money, not only as a means of transfer of funds but also as a store of value.

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